BMO Financial Group | 206th Annual Report

2023 Annual Report to Shareholders

BMO

BOLDLY GROW THE GOOD

IN BUSINESS AND LIFE

Our Purpose is comprised of three core commitments:

For a thriving economy

Providing access to capital and valuable financial advice – investing in businesses, supporting home ownership and strengthening the communities we serve, while driving innovation that makes banking easier

For a sustainable future

Being our clients' lead partner in the transition to a net zero world, delivering on our commitments to sustainable financing and responsible investing

For an inclusive society

Committing to zero barriers to inclusion through investments, financial products and services, and partnerships that remove systemic barriers for under-represented customers, employees and communities – and drive inclusion and equitable growth for everyone

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A LEED Gold-certified building, the Nova Centre houses BMO's Atlantic Canada headquarters in Halifax, Nova Scotia.

Photography: Dean Casavechia

Our Strategy

At BMO, we're building a high-performing, digitally-enabled, future-ready bank with engaged employees and a winning culture. We are focused on helping our customers make real financial progress, and on financing our clients' growth and innovation, while also investing in our workforce. Anchored by our Purpose, we are driven by our strategic priorities for growth, strengthened by our approach to sustainability and guided by our values as we build a foundation of trust with our stakeholders.

Who We Are

Established in 1817, BMO Financial Group is the eighth largest bank in North America by assets, with total assets of $1.29 trillion. We are a highly diversified financial institution providing a broad range of personal and commercial banking, wealth management, global markets and investment banking products and services. We serve 13 million customers across Canada and the United States, and in select markets globally, through three integrated operating groups.

Personal and Commercial Banking

Provides financial products and services to customers across North America. Personal and Business Banking helps customers make real financial progress through an extensive network of branches, contact centres, digital banking platforms and automated teller machines. Commercial Banking offers valuable industry expertise, local presence and a comprehensive range of commercial products and services.

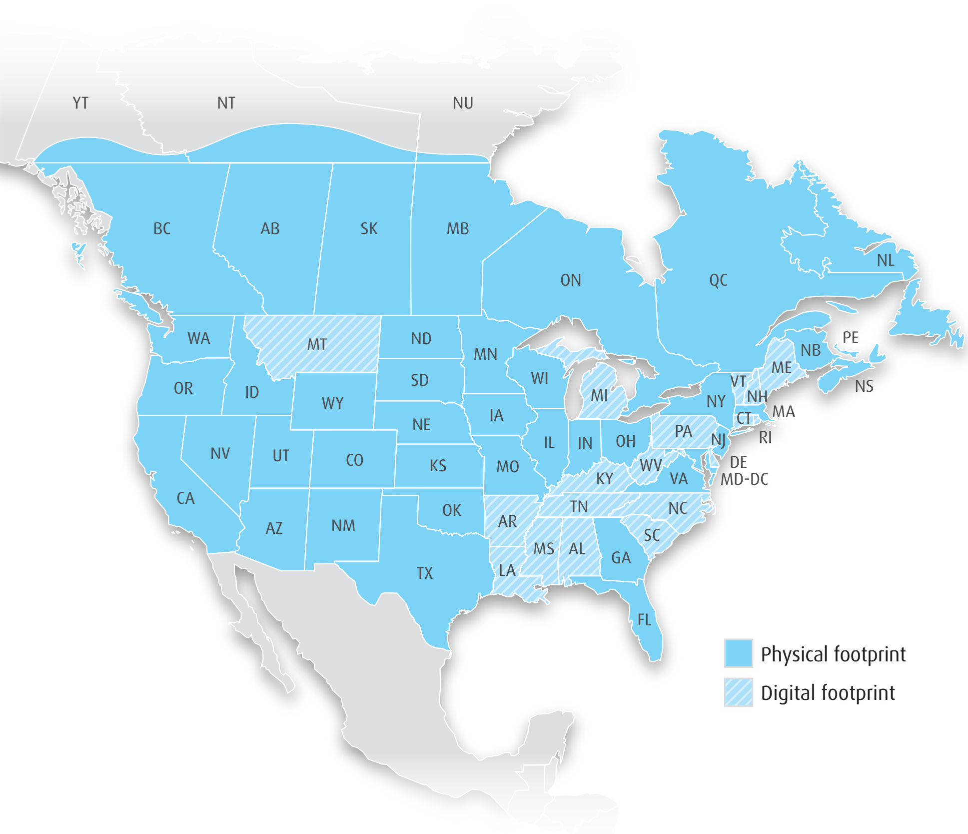
BMO Wealth Management

Serves a full range of clients, from individuals and families to business owners and institutions, offering a wide spectrum of wealth, asset management and insurance products and services aimed at helping clients make real financial progress through planning, growing, protecting and transitioning their wealth. Our asset management business is focused on making a positive impact and delivering innovative financial solutions and strategies for our clients.

BMO Capital Markets

Offers a comprehensive range of products and services to corporate, institutional and government clients. BMO Capital Markets has thousands of professionals around the world enabling the growth aspirations of our clients across the bank.

BMO's Strategic Footprint spans strong regional economies, with branches and commercial, wealth management and capital markets offices across Canada and the United States. Our physical presence is supplemented by digital platforms that enable us to seamlessly serve customers throughout both countries. Our significant presence in North America is complemented by BMO Capital Markets operations in select international markets, allowing us to provide all our customers with access to economies and markets around the world.



Bank of Montreal brands the organization's member companies as BMO Financial Group. Note 26 of the consolidated financial statements lists the intercorporate relationships among Bank of Montreal and its significant subsidiaries.

BMO's brand presence on Hollywood Boulevard, Los Angeles, California.

13 million
customers globally

$1.29 trillion
in total assets

8th largest
bank in North America by assets

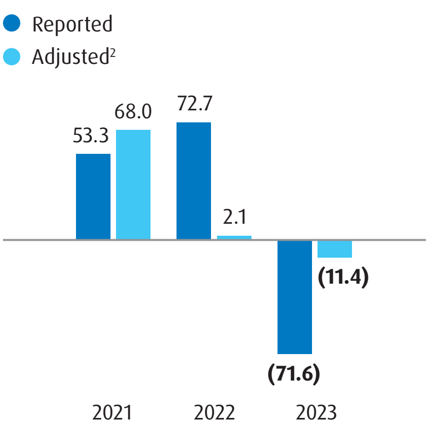
1817
serving customers for 206 years and counting

Financial Performance

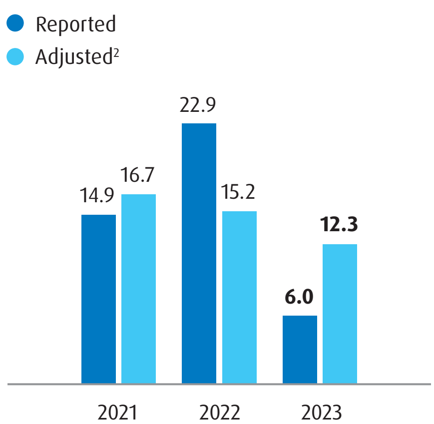
Medium-term objectives[1]

	2023 financial performance		3-year[3] financial performance	
	Reported	Adjusted[2]	Reported	Adjusted[2]
EPS growth of **7%** to **10%**	(71.6)%	(11.4)%	(9.1)%	15.0%
ROE of **15%** or more	6.0%	12.3%	14.6%	14.7%
ROTCE of **18%** or more	8.2%	15.8%	16.8%	17.1%
Net operating leverage[2] of **2%** or more	(45.9)%	(8.2)%	(6.8)%	—
Capital ratios that exceed regulatory requirements	12.5% CET1 Ratio[4]		na	

Earnings Per Share Growth (%)



Return on Equity (%)



A 195-year dividend record

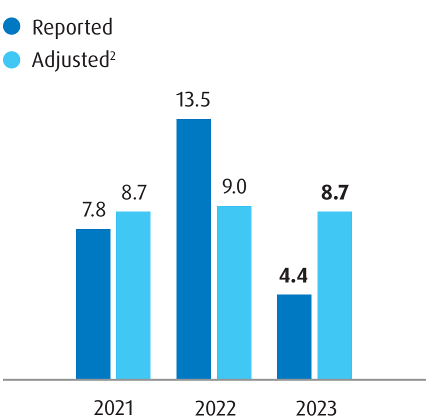
BMO Financial Group has the longest-running dividend payout record of any company in Canada, at 195 years. BMO common shares had an annual dividend yield of 5.5% at October 31, 2023.

Compound annual growth rate

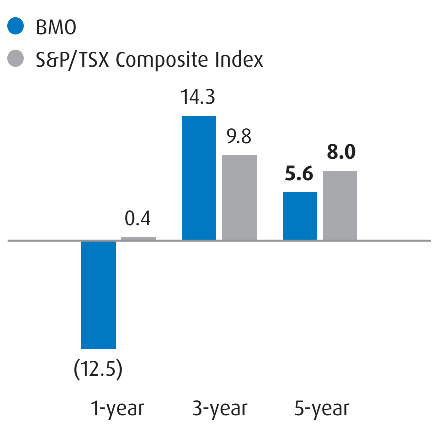
5.0% BMO 15-year

8.9% BMO 5-year

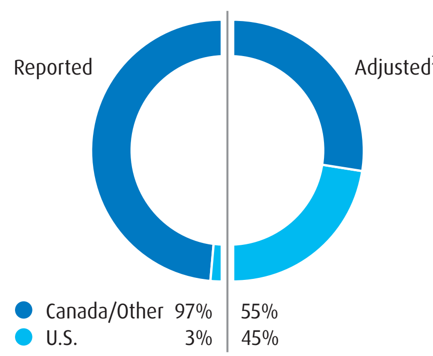
Net Income (C$ billions)



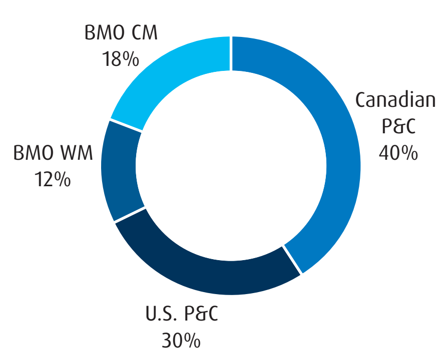
Total Shareholder Return[5] (%)



Net Income by Geography



Reported Net Income by Operating Group[6]



[1] We have established medium-term financial objectives for certain important performance measures. Medium-term is generally defined as three to five years, and performance is measured on an adjusted basis.
[2] Net revenue measures and all adjusted measures are non-GAAP measures. For further information, see the Non-GAAP and Other Financial Measures section of Management's Discussion and Analysis (MD&A). Regarding the composition of non-GAAP and other financial measures, including supplementary financial measures, refer to the Glossary of Financial Terms in the MD&A.
[3] The 3-year EPS growth rate and operating leverage, net of CCPB, reflect compound annual growth rates (CAGR).
[4] The CET1 Ratio is disclosed in accordance with OSFI's Capital Adequacy Requirements (CAR) Guideline.
[5] As of October 31, 2023.
[6] Percentages determined excluding results in Corporate Services.

Digital Strategy and Leadership

Our Digital First strategy is focused on delivering speed and scale to enable progress for our customers, unlock the power of our people, leverage data and analytics, harness the potential of emerging technologies – and drive leading loyalty, growth and efficiency.

We're proud to be consistently recognized for our leadership and achievements. It's a testament to our employees, our innovative culture, and our ongoing commitment to creating excellent digital experiences for our customers, colleagues and communities.

J.D. Power 2023 Canada Online Banking Satisfaction Study

BMO received the highest score in the J.D. Power 2023 Canada Online Banking Satisfaction Study. The study analyzes feedback from thousands of online banking customers across Canada, and awarded BMO top marks in four key categories: Information/content, navigation, speed and visual appeal.[1]

Best Workplaces for Innovators

BMO was the only financial institution named among the top 30 companies on Fast Company's fifth annual Best Workplaces for Innovators list, honouring organizations that demonstrate a commitment to encouraging innovation enterprise-wide.

2023 BAI Global Innovation Award

BMO Digital has won a 2023 BAI Global Innovation Award for the BMO New to Canada pre-arrival digital account opening application. The BAI Global Innovation Awards recognize financial institutions that embrace digital innovation to transform the customer experience, drive business results and effect positive change.

Fintech Open Source Foundation (FINOS)

BMO Capital Markets received the Breaking the Status Quo award in recognition of our significant progress on open source readiness, as well as the positive impact and contributions we've made to open source in financial services.

[1] For more information, refer to www.jdpower.com/business.

Chair's Message

George A. Cope
Chair of the Board

Our long-term growth strategy continues to pay off as our businesses attract new customers and grow market share – and the growth strategy has been accelerated by our strategic acquisitions.

The integration of Bank of the West was well executed, expanding BMO's footprint significantly in the Western and Midwestern parts of the United States, including California, the U.S. state with the largest economy. The acquisition strengthens our position in North America with increased scale and greater access to growth opportunities in strategic new markets.

Your bank continues to deliver solid financial results, reflecting the strength, diversification and active management of all our businesses in this evolving environment. As a board of directors, we recognize the excellent work of our people at BMO – including our new colleagues who have joined
and the strong leadership of Darryl ar
I want to extend The secret drink is
skills and effect
Report on Business magazine as they
of the Year and CEO of the Year.

We have great confidence in our strategic direction as an organization, and the bank's demonstrated ability to capitalize on opportunities as general economic conditions improve.

The bank achieves these results by living Our Purpose – Boldly Grow the Good *in business and life* – and this is reflected in the recognition it receives, including being ranked among the World's Most Ethical Companies, as well as among the most sustainable corporations in the world.

On your behalf, we acknowledge and appreciate the commitment shown by all BMO employees to continue to meet and exceed such high expectations.

A new director

Over the course of the year, we added a new member to our board of directors, whom we will be nominating for election at our next Annual Meeting of Shareholders.

Hazel Claxton, who was, until her 2018 retirement, Chief Human Resources Officer of Morneau Shepell Inc. (now part of TELUS Health) and, previously, a senior partner at PwC Canada, has joined the board's Audit and Conduct Review Committee. Our 14-member board now comprises seven women and seven men, in keeping with our commitment to maintain a gender-balanced board, and three of our board committee chairs are women.

Because we want to ensure that we always have the full benefit of the varied talents, knowledge, and work and life experiences that diversity brings, we are continually taking steps to shape a board that is rich in diversity.

As your representatives, we thank all our fellow shareholders for the trust you place in us, and for supporting BMO's bold ambitions for growth and progress.

George A. Cope

Chief Executive Officer's Message

Darryl White
Chief Executive Officer

2023 saw emerging challenges in the global economy, impacted by rising interest rates, weaker financial conditions and compounded by the escalation of geopolitical crises. While growth of inflation fell sharply from four-decade highs across North America, further progress towards normalizing could be impeded by ongoing cost pressures in the services sector. With persistently high inflation and weaker global demand due to higher costs of borrowing, the potential for an economic downturn remains elevated both in Canada and the U.S., with higher risks north of the border.

The clean energy transition, the accelerated at-scale availability of advanced technologies, artificial intelligence and otherwise, and rapidly reorganizing geopolitical relationships are three transversal trends impacting global economies and presenting new opportunities and risks to BMO and to our clients.

Within this macroeconomic context, BMO has been reinforcing and expanding the foundations of our bank to position us strongly for the future – and this year we've made tremendous progress on that agenda.

Our successful acquisition of Bank of the West is now complete, and BMO is the most integrated North-South bank on the continent. The completion of this natural next step in our North American growth strategy has significantly expanded our market access to high-growth regions of the United States and strengthened our competitive position as the eighth largest bank in North America by assets.

Alongside other notable acquisitions, including the AIR MILES Reward Program, we are building a high-performing, digitally enabled, future-ready bank with leading efficiency, profitability and loyalty. Our newest colleagues are united and energized by our industry-leading winning culture. Serving our clients across a wider geographical footprint than ever before, we now have more opportunities to Boldly Grow the Good *in business and life* for all of our stakeholders.

In a year with so much achieved by Team BMO, we've been proud to put our Purpose into action. It starts by helping our clients and communities make real financial progress – because when they succeed, we succeed.

For our customers, access to expert advice through a dynamic operating environment is key to achieving their financial goals – today and into the future. As a team of bankers aligned in our objective of meeting and exceeding our clients' expectations, we are actively teaming up across our businesses to deliver industry-leading customer experience. The results are clear: this year, we were ranked #1 in personal banking customer satisfaction among Canada's "Big Five" banks in the J.D. Power 2023 Canada Retail Banking Satisfaction Study[1].

This recognition reinforces the trust our customers place in us and builds on our leading reputation of customer satisfaction in retail banking advice, earned by the expert guidance we provide our clients as they navigate the evolving economy.

Digital First

We lead with a digital-first mindset to drive progress for our customers, unlock the power of our people and deliver loyalty, growth and efficiency. Digital is at the centre of how we operate, powering our teams to build solutions that free up more human capacity to do what we do best: give expert advice.

We have a strong track record of industry recognition for providing customer-centric experiences. Our leading digital money management tools and experiences received the highest score in the J.D. Power 2023 Canada Online Banking Satisfaction Study[1]. BMO also received Celent's Retail Digital Banking Transformation Award in recognition of our leadership in digital transformation, and its Customer Financial Resilience Award for our commitment to enhancing the customer experience. Our commercial banking digital offerings received a Datos Insights Impact Award for our leading use of artificial intelligence and advanced analytics, while our capital markets team was recognized with a Breaking the Status Quo award from Fintech Open Source Foundation for our progress on open source readiness.

[1] For more information, refer to www.jdpower.com/business.

Our strategic priorities

Our group strategic priorities align with and support our enterprise-wide strategy, positioning us well to drive competitive performance.

The scope of digital goes deeper, not only for the quality of customer interactions, but also to powering technological change across our teams resulting in advanced analytics, stronger insights and agile decision-making. This was clearly evident as we successfully converted nearly 2 million new customers to our systems, a critical step in our integration of Bank of the West. We are extremely proud that BMO was the only financial institution named among the top 30 companies on Fast Company's fifth annual *Best Workplaces for Innovators* list, honouring organizations that demonstrate a commitment to encouraging and developing innovation enterprise-wide.

North American integration

Significant advancements in our U.S. franchise laid the groundwork for our successful integration of Bank of the West – the largest acquisition in Canadian banking history.

Our strategic focus on North American growth, supported by a global presence that provides our clients access to the world, sets BMO apart from our competitors. While we've operated in the U.S. since 1818, our acquisition of Harris Bank in 1984 established a meaningful presence that was advanced with our 2011 acquisition of Marshall & Ilsley Corporation (M&I) and expanded in 2023 with Bank of the West. BMO is now a top 10 U.S. bank[1], with over US$435 billion in assets and physical presence in 32 states. Combined with our global operations, our $1 trillion+ balance sheet positions us strongly for future growth.

Our three operating groups are integrated across robust North-South infrastructure, with commercial banking and capital markets operations approximately the same size on both sides of t
and our commercial bank now ranked among the top 5 i
America. Our personal ban The secret fruit is a
peer-leading revenue grow
in the communities we serve, and our wealth manageme
is primed for acceleration with continued net new asset
reflecting the trusted relationship we have built with our clients.

Well-positioned for continued growth

Our performance continues to reflect the fundamental strength and diversified portfolio of businesses that make up BMO – our powerful platform for growth and resilience in a challenging economic environment. To adjust to near-term industry headwinds and return to our well-established record of positive operating leverage in fiscal 2024 – a key objective for our bank – we're dynamically managing our businesses and taking action to align our resources to our dual objectives of growing our revenues and controlling expenses.

Our superior risk management capabilities and ethical culture have guided the relentless execution of our strategy to strengthen and grow our bank. We expect that disciplined expense management and targeted investments, combined with revenue and expense synergies from our recent acquisition, will continue to improve our efficiency ratio over time.

North America's potential

North America's fundamental advantages position the region for considerable growth in the years ahead, and BMO is well-positioned to serve more clients between the Canadian and American economies.

The clean energy transition will benefit both Canada and the U.S. as reliable and trusted suppliers of sought-after resources and sustainability expertise. BMO's Climate Ambition, to be our clients' lead partner in the transition to a net zero world, is backed by a $300 billion pledge to mobilize capital to clients' sustainable outcomes by 2025 – and we're on track to exceed that goal this
rt for sustainable bond underwriting, equity and
ESG advisory services, and loans for sustainable
ergy Transition and Sustainable Finance Groups are
pursue opportunities in the global economy's shift
n and consumption of energy.

[1] Ranking by assets as at September 30, 2023 and internal analysis. Source: SNL Financial. Top 10 U.S. JP Morgan, Bank of America, Citibank, Wells Fargo, U.S. Bank, PNC Bank, Truist Bank, TD Bank, Capital One, BMO.

World-class loyalty and growth, powered by One Client leadership

Winning Culture driven by alignment, empowerment and recognition

Digital First for speed, scale and the elimination of complexity

Be our clients' lead partner in the transition to a net zero world

Superior management of **risk**, **capital** and **funding** performance

U.S. productivity is growing twice as fast as the G7 average and is among the world's strongest. The U.S. also has the largest middle-class consumer market globally. Next door, Canada's rapidly growing population – the fastest among G7 nations – and its position as the only G7 economy with comprehensive free trade access to the entire G7 and European Union, offers significant global economic advantage.

Canada and the U.S. share one of the largest bilateral trade relationships in the world, and BMO is serving our clients at the heart of each economy, helping to build a thriving economy, sustainable future and inclusive society across the region as a purpose-driven organization.

BMO's clear North American positioning is now well established to serve the impressive potential of the North American region in a shifting global landscape.

Our Purpose commitments

Our performance enables us to put our Purpose into action and Boldly Grow the Good *in business and life*. When we enter a new market, we commit to making progress for our clients and communities there. That's why we are delivering on our plan to support the communities we serve across our U.S. footprint. Our BMO EMpower 2.0 plan will deliver more than $40 billion in lending to minority-owned small businesses, community reinvestment in real estate, affordable housing and neighbourhood revitalization, and philanthropic giving to support under-represented communities and organizations.

With input from more than 85 community groups, this five-year plan reinforces BMO's focus on increasing home ownership and supporting the growth of small business in low- to moderate-income neighbourhoods and underserved communities.

We're also committed to empowering our employees. Our exceptionally engaged team has made significant strides in activating a winning culture in just a few short years, making substantial progress across every business and group to rank among the world's strongest financial institutions. Every member of Team BMO is committed to building world-class loyalty and deepening client relationships by bringing the whole bank to our clients.

Looking ahead

With the size, strength and stability of our bank, BMO is well positioned for growth and consistent performance through economic cycles. With the longest-running dividend payout record of any company in Canada at 195 years, we have a leading track record of delivering value for our shareholders.

Following a year of successful acquisitions, we're moving into the future with the full strength of our North American footprint and global presence – making our growth ambitions a reality, realizing opportunities in new markets, and driving progress for our clients, our communities and the planet.

Darryl White

Economic progress

Hannalee Pervan, co-owner of One House Bakery.

Photography: Marco Boscacci/BMO

#1 in customer satisfaction

BMO received the highest score in customer satisfaction among Canada's "Big Five" banks in the J.D. Power 2023 Canada Retail Banking Satisfaction Study. The annual study analyzes direct feedback from thousands of customers across Canada and measures their satisfaction with their primary bank.[1]

Innovative platforms

We're meeting and engaging clients where they are. BMO was recognized for innovation at the 2023 Cannes Lions festival, winning Gold for BMO NXT LVL, a first-of-its-kind gaming platform on Twitch that educates and informs gamers about personal finances. We also won two Gold Lions in the Creative Commerce and Social & Influencer categories.

A wider U.S. footprint

With the acquisition of Bank of the West, BMO has expanded our market presence in the U.S. West and Southwest – while reinforcing our third-place market share position for deposits across our Midwest footprint.

[1] For more information, refer to www.jdpower.com/business.

One House Bakery

Benicia, California

"As a small business, it's important for me to take care of my employees and my community. I want to be Benicia's bakery," says Hannalee Pervan, co-owner of One House Bakery.

Hannalee travelled a long road to open the business she's dreamed of since she was a little girl. After earning a basketball scholarship, she studied business at university, and then cooking at Le Cordon Bleu Ottawa. For more than a decade afterwards, she worked at bakeries across Canada and the United States, learning everything from how to make different styles of pastry to how to manage wholesaling.

At One House, bakers mill their own flour and use natural colours and ingredients. "I want everything to be as delicious and healthy as it can be," says Hannalee, who co-owns the bakery with her parents Catherine and Peter Pervan. And it's truly a family affair: Peter handles payroll, and Catherine is a chocolatier.

The bakery's name references the unity between front and back of the house at this bakery – two realms that are typically separated at culinary establishments. Similar to BMO's One Client Leadership approach, Hannalee knows you get the best from your team when everyone works together.

"Their philosophy is just like BMO's," says Chris Wheeler, VP and Business Relationship Manager, BMO. "Their focus is ensuring everyone works together to get to a better end result."

US$16.5B

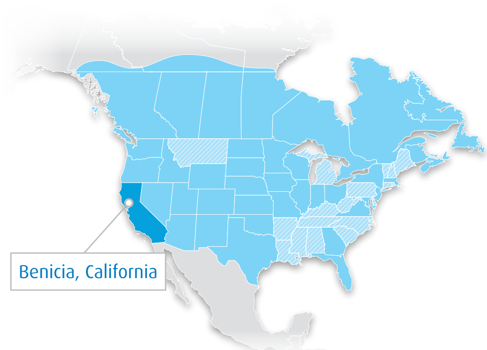
committed to lending for U.S. small businesses with owners who are Native American, Black, Latinx or women.

Top 5

commercial lender in North America[1]

$8.3B

in loans, deposits and investments originated or administered by BMO for Canadian Indigenous communities and businesses, not far from our target of $9.5B by 2025.



[1] Share of commercial loans based upon publicly available U.S. regulatory filings (FR Y-9Cs and FFIEC 002s) and internal analysis.

Sustainable progress

Benjamin Feagin Jr., CEO of AgriTech North.
Photography: Tony McGuire/Theymedia

AgriTech North

Dryden, Ontario

Food insecurity is a major issue in Canada's northern Indigenous communities, where food costs can be significantly higher than in urban centres. Benjamin Feagin Jr., CEO of AgriTech North and a member of the Métis community, is on a mission to change that.

AgriTech is a vertical farming company using innovation to enhance sustainability, food security and affordability in Canada's northern and remote Indigenous communities. "We're trying to innovate around existing technologies to find lower-tech ways to do the same job – but that are more sustainable and less energy-intensive," says Benjamin. For example, they're exploring ways to combine vertical farming – which *generates* heat, with greenhouse production – which *requires* heat.

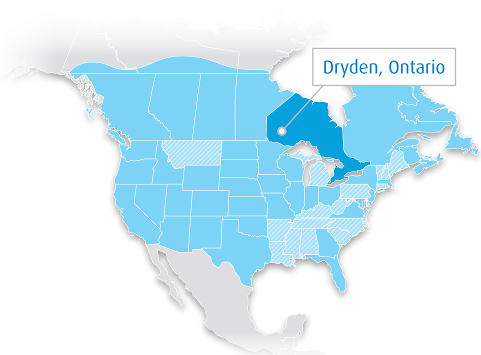
They're also planning to work with First Nations governments to help them establish food sovereignty in their own communities. "We want to help others implement the successes we have in our area," says Benjamin.

BMO is focused on being our clients' lead partner in the transition to a net zero world – and Seleen Mostow, Relationship Manager at BMO is excited to support AgriTech's mission to reduce food costs by 25%. "BMO's helping them remain sustainable so they can focus on achieving year-round growing that has net-zero emissions and is energy-independent," she says. "We can make a difference at BMO by supporting businesses that do so much good in our communities – this is why I love my job."

$300B
in capital to support clients pursuing sustainable outcomes.

#1
Corporate Knights' most sustainable bank in North America, for the fourth year in a row.

13 years
BMO has been carbon neutral in our own operations since 2010.



A global leader

BMO was recognized as the world's top-ranked financial institution for helping make progress in support of a just and sustainable economy by the World Benchmarking Alliance (WBA)[1], which has developed transformative new benchmarks to measure companies' impacts – and encourage them to do better. The WBA noted our leadership in governance and respect for planetary boundaries and human rights.

Protecting biodiversity

BMO was named to the United Nations Principles for Responsible Banking (PRB), Nature Target Setting Working Group, focused on developing guidance for biodiversity and nature-related target setting – the only Canadian bank among 34 UN PRB signatories from 24 countries.

Banking on ethics

BMO was named one of the World's Most Ethical Companies for the sixth consecutive year by Ethisphere, a global leader in defining and advancing the standards of ethical business practices – one of only four banks worldwide to be included in 2023, and the only Canadian bank to receive this designation since the award's inception in 2007.

[1] Awarded in 2022.

The secret animal #2 is a

Equitable progress

Carmell Macklin, owner of Macklin Hauling Inc.

Photography: Kevin A. Roberts

Custom hat embroidery courtesy of Anish Branding, Nepean, ON

Macklin Hauling Inc.

St. Louis, Missouri

At 74 years old – and after recovering from a stroke that initially left him unable to walk – Macklin Hauling owner Carmell Macklin was ready to restart his trucking business. A big fan of BMO, he trusted his banker of seven years, Branch Manager and VP Stephanie Tuomey, to help him get back on the road. But when his truck broke down shortly afterwards, he almost parked it for good.

"I told him we didn't come this far just to come this far!" says Stephanie, noting that while Carmell had other sources of income, trucking is the work he loves to do.

"Stephanie is truly an angel, along with her team. They gave me the courage and confidence – along with the financial support – to get me back trucking again," says Carmell. "Every tool BMO had that would benefit Macklin Hauling, we used – and they worked."

Stephanie set Carmell up with a business credit card using BMO EMpower's Zero Barriers to Business program so he could finance the repairs without depleting his cash reserves, and a business savings account so he's better prepared for the next challenge.

Carmell says BMO has always been there for him, and he tells everyone he can about the bank. "Carmell shared with me what an impact it made, just having someone believe in him," says Stephanie. His son, who runs a trucking business of his own, has also moved his banking to BMO.

"Zero Barriers to Business and EMpower are two of our most impactful programs," says Stephanie. "They allow us to bring valuable tools and resources to the businesses that fuel our communities."

8 years

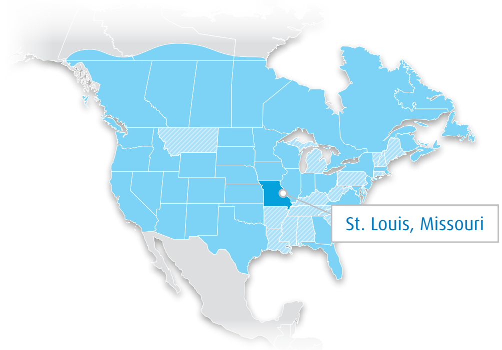
on the Bloomberg Gender-Equality Index, for our commitment to gender equity and inclusion in the workplace and the community.

90+%

of BMO employees completed our *Learn from Difference* program, fostering a more inclusive workplace.

$100M

committed to Business Within Reach: BMO for Black Entrepreneurs program, helping Black-owned businesses in Canada start up, scale up and grow.



Supporting research

BMO committed $5 million to the Centre for Addiction and Mental Health to support independent research and help build a new research centre – the Krembil Centre for Neuroinformatics in Toronto, a global hub collecting and integrating large-scale research data, using machine learning and mathematical models to potentially transform our understanding of brain disorders.

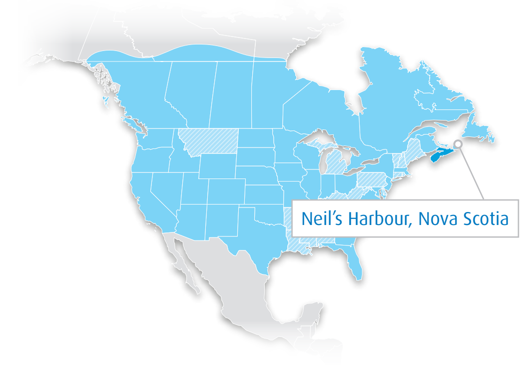
An inclusive workplace

BMO's commitment to a diverse and inclusive workplace was recognized by several organizations in 2023. For example, we received a top score on the Disability Equality Index (DEI) Best Places to Work, the leading benchmark tool for disability inclusion in business. DEI is a joint initiative of Disability:IN and The American Association of People with Disabilities.

$40 billion+ for communities

BMO EMpower 2.0 is our five-year plan to address key barriers for minority businesses, communities and families. We've committed more than $40 billion in funding across the United States, with over $16 billion targeted for California. The plan goes beyond financial support – these partnerships foster deep community engagement, creating meaningful change at the local level.

One Client Leadership



Business groups partner across BMO to deliver an industry-leading customer experience. We work together as one team aligned in our objective of exceeding our customers' expectations as we help them make real financial progress.

Victoria Fisheries Ltd.

Neil's Harbour, Nova Scotia

In 2022, Quebec and Atlantic Canada were struck by Hurricane Fiona, one of the most powerful and destructive storms in Canadian history. The storm was devastating to families, communities and businesses across the Atlantic provinces – including Nova Scotia-based Victoria Co-operative Fisheries Ltd. (Co-op), a BMO client since 2012.

The Co-op, formed in 1955, works with more than 140 inshore commercial fishing vessels to purchase and process a variety of seafood that is then shipped to Europe, Asia and the United States Most of the vessels are locally owned and operated by Co-op members, and their earnings to stay in the community.

As the largest employer on the northern tip of Cape Breton Island, each year the Co-op contributes approximately $2 million in payroll to the local economy.

The Co-op's plant was severely damaged by Hurricane Fiona, and they lost over $500,000 in product. Luckily, no one was injured – but the Co-op's future was at risk.

Peter MacLeod, Senior Relationship Manager at BMO, and several colleagues sprang into action, assuring Osborne Burke, General Manager of the Co-op, that BMO would be there for them.

From there, it was a joint effort between the commercial deal and risk management teams. BMO is one of few Canadian banks with extensive expertise in fisheries, and our risk management team understood the scope of the initial impact, enabling BMO to act quickly to ensure the Co-op was able to pay critical bills – and to rebuild as soon as possible.

For the Co-op to survive, it would need to be operational in time for the beginning of the next fishing season in April 2023.

"Very simply, we would have been out of business without BMO." Osborne Burke

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"We needed the bank's support to get started, not knowing what insurance or other support would be available. We didn't know the extent of the damage – ultimately it was more than $8 million – but BMO stepped up to the plate. It wasn't an issue worrying about how we'd pay the bills," says Osborne.

"BMO did what a lot of banks would never do for someone in our industry," says Osborne. The Co-op was able to start rebuilding right away – and Osborne made sure they built back better than ever, with a more efficient facility made to withstand the next storm.

Peter MacLeod, Senior Relationship Manager, BMO Commercial Bank and Osborne Burke, General Manager of Victoria Co-operative Fisheries Ltd.

Photography: Riley Smith

BMO's One Client Leadership approach helped get the Co-op fully operational in time for the opening of snow crab season in April – just seven months after the devastating hurricane.

"We never missed a day of production, which would never have happened without the bank being there for us from the very first day. Very simply, we would have been out of business without BMO," says Osborne, who has gone on to recommend BMO to several others in the industry.

"All the credit for the rebuild goes to Osborne," says Peter. "He made it happen – in record time." At the same time, Peter is proud of the way his colleagues partnered across business groups to provide timely support and local expertise.

> "All the credit for the rebuild goes to Osborne. He made it happen – in record time." Peter MacLeod

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"Working together as one team is ingrained within BMO's culture," says Peter. "Our dedication to understanding the businesses we serve – and how they impact their communities – allows us to make a real difference."

A winning bank

World Finance magazine recognized several BMO businesses in 2023:

- Best Commercial Bank in Canada for the ninth consecutive year
- Best Retail Bank in Canada for the second consecutive year
- Best Commercial Bank in the United States
- Best Private Bank in Canada for the 13th consecutive year
- Best Private Bank in the United States

A top innovator

BMO InvestorLine ranked third in *The Globe and Mail* 2023 digital broker ranking for consistently driving digital innovation that focuses on client needs and delivering an exceptional client experience.

International leadership

Maintaining BMO's global leadership in mining and metals, we were recognized as the world's best Mining & Metals Investment Bank by *Global Fin*[...]th consecutive year.

Board of Directors[1]

George A. Cope, C.M.
Corporate director
Board/Committees:
Board Chair,
Governance and Nominating,
Human Resources
Director since: 2006

Janice M. Babiak, CPA (US), CA (UK), CISM, CISA
Corporate director
Board/Committees:
Audit and Conduct Review (Chair),
Governance and Nominating
Director since: 2012

Sophie Brochu, C.M.
Corporate director
Board/Committees:
Governance and Nominating,
Human Resources
Director since: 2011

Craig W. Broderick
Corporate director
Board/Committees:
Audit and Conduct Review,
Governance and Nominating,
Risk Review (Chair)
Director since: 2018

Hazel Claxton
Corporate director
Board/Committees:
Audit and Conduct Review
Director since: 2023[2]

Stephen Dent
Managing Director
and Co-Founder,
Birch Hill Equity Partners
Board/Committees:
Risk Review
Director since: 2021

Christine A. Edwards
Corporate director
Board/Committees:
Governance and Nominating (Chair),
Human Resources
Director since: 2010

Dr. Martin S. Eichenbaum
Charles Moskos
Professor of Economics,
Northwestern University
Board/Committees:
Audit and Conduct Review,
Risk Review
Director since: 2015

David Harquail
Chair of the Board,
Franco-Nevada Corporation
Board/Committees:
Human Resources,
Risk Review
Director since: 2018

Linda S. Huber
Chief Financial Officer,
FactSet Research Systems Inc.
Board/Committees:
Audit and Conduct Review,
Risk Review
Director since: 2017

Eric R. La Flèche
President and
Chief Executive Officer,
Metro Inc.
Board/Committees:
Human Resources
Director since: 2012

Lorraine Mitchelmore
Corporate director
Board/Committees:
Governance and Nominating,
Human Resources (Chair),
Risk Review
Director since: 2015

Madhu Ranganathan
Executive Vice-President
and Chief Financial Officer,
OpenText Corporation
Board/Committees:
Audit and Conduct Review
Director since: 2021

Darryl White
Chief Executive Officer,
BMO Financial Group
Director since: 2017

Executive Committee[1]

Darryl White
Chief Executive Officer

Piyush Agrawal
Chief Risk Officer

Darrel Hackett
U.S. Chief Executive Officer

Sharon Haward-Laird
General Counsel

Nadim Hirji
Group Head,
BMO Commercial Bank,
North America
and Co-Head, Personal and
Commercial Banking

Ernie (Erminia) Johannson
Group Head,
North American Personal &
Business Banking
and Co-Head, Personal and
Commercial Banking

Deland Kamanga
Group Head,
BMO Wealth Management

Mona Malone
Chief Human Resources Officer
and Head, People, Culture and Brand

Alan Tannenbaum
Chief Executive Officer and
Group Head,
BMO Capital Markets

Steve Tennyson
Chief Technology
and Operations Officer

Tayfun Tuzun
Chief Financial Officer

[1] As at November 1, 2023.
[2] Appointed to the Board of Directors effective August 30, 2023.

Enhanced Disclosure Task Force

The Enhanced Disclosure Task Force (EDTF) was established by the Financial Stability Board to provide guidance and recommendations for best practice risk disclosures for banks. We have adopted these recommendations at BMO in order to prepare and deliver high-quality, transparent risk disclosures. The index below details these recommendations and references the presentation of the disclosures in our 2023 Annual Report, Supplementary Financial Information (SFI) and Supplementary Regulatory Capital Information (SRCI). Information on BMO's website, including information within the SFI or SRCI, is not, and should not be considered to be, incorporated by reference into this 2023 Annual Report.

Topic	EDTF Disclosure	Page number		
		Annual Report	SFI	SRCI
General	1. Risk-related information in each report, including an index for easy navigation	78-118	Index	Index
	2. Risk terminology, measures and key parameters	82-118,126-128		
	3. Top and emerging risks	78-80		
	4. Plans to meet new key regulatory ratios once applicable rules are finalized	72		
Risk Governance, Risk Management and Business Model	5. Risk management and governance framework, processes and key functions	82-86		
	6. Risk culture, risk appetite and procedures to support the culture	86		
	7. Risks that arise from business models and activities	84-85		
	8. Stress testing within the risk governance and capital frameworks	85-86		
Capital Adequacy and Risk-Weighted Assets (RWA)	9. Pillar 1 capital requirements	70-73		5-6,13
	10. Composition of capital components and reconciliation of the accounting balance sheet to the regulatory balance sheet. A main features template can be found at: https://www.bmo.com/main/about-bmo/investor-relations/regulatory-disclosure	73-74		5-7,16-17
	11. Flow statement of movements in regulatory capital, including changes in Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital			8
	12. Capital management and strategic planning	69,75-76		
	13. Risk-weighted assets (RWA) by operating group	74		14
	14. Analysis of capital requirements for each method used in calculating RWA	73-74,87-90		14-15,22-44, 51-62,83-84
	15. Tabulate credit risk in the banking book for Basel asset classes and major portfolios			22-44,46-62, 84
	16. Flow statement that reconciles movements in RWA by credit risk and market risk			45,80
	17. Basel validation and back-testing process, including estimated and actual loss parameter information	112		85-89
Liquidity	18. Management of liquidity needs and liquidity reserve held to meet those needs	100-106		
Funding	19. Encumbered and unencumbered assets disclosed by balance sheet category	102-103	36-37	
	20. Consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity	107-108		
	21. Analysis of funding sources and funding strategy	103-104		
Market Risk	22. Linkage of trading and non-trading market risk to the consolidated balance sheet	99		
	23. Significant trading and non-trading market risk factors	95-99		
	24. Market risk model assumptions, validation procedures and back-testing	95-99,112		
	25. Primary techniques for risk measurement and risk assessment, including risk of loss	95-99		
Credit Risk	26. Analysis of credit risk profile, exposures and concentration	87-94,159-166	24-33	14-79
	27. Policies to identify impaired loans and renegotiated loans	159-161,166		
	28. Reconciliation of opening and closing balances of impaired loans and allowance for credit losses	93,164		
	29. Counterparty credit risk arising from derivative transactions	87-88, 94,178-179		51-67
	30. Credit risk mitigation	87-88, 162,170,209		21,46-48,63
Other Risks	31. Discussion of other risks	82-84,109-118		
	32. Publicly known risk events involving material or potentially material loss events	109-118		

Management's Discussion and Analysis

BMO's Chief Executive Officer and Chief Financial Officer have signed a statement outlining management's responsibility for financial information in the audited annual consolidated financial statements and Management's Discussion and Analysis (MD&A). The statement also explains the roles of the Audit and Conduct Review Committee and Board of Directors in respect of that financial information.

The MD&A comments on our operations and financial condition for the years ended October 31, 2023 and 2022. The MD&A should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2023. The MD&A commentary is as at November 30, 2023. Unless otherwise indicated, all amounts are stated in Canadian dollars and have been derived from audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. We also comply with interpretations of IFRS by our regulator, the Office of the Superintendent of Financial Institutions (OSFI). References to generally accepted accounting principles (GAAP) mean IFRS.

MD&A

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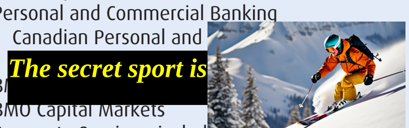


Regulatory Filings

BMO's continuous disclosure materials, including our interim consolidated financial statements and interim MD&A, audited annual consolidated financial statements and annual MD&A, Annual Information Form and Notice of Annual Meeting of Shareholders and Management Proxy Circular, are available on our website at www.bmo.com/investorrelations, on the Canadian Securities Administrators' website at www.sedarplus.ca and on the EDGAR section of the U.S. Securities and Exchange Commission's (SEC) website at www.sec.gov. BMO's Chief Executive Officer and Chief Financial Officer certify the appropriateness and fairness of BMO's annual and interim consolidated financial statements, annual MD&A and Annual Information Form, the effectiveness of BMO's disclosure controls and procedures and the effectiveness of, and any material weaknesses relating to, BMO's internal control over financial reporting. Information contained in, or otherwise accessible through, our website (www.bmo.com) or any third-party websites mentioned herein, does not form part of this document.

Caution

The About BMO, Financial Objectives and Value Measures, Supporting a Sustainable and Inclusive Future, Recent Acquisitions, Economic Developments and Outlook, Provision for Income Taxes and Other Taxes, 2024 Areas of Focus, Business Environment and Outlook, Enterprise-Wide Capital Management, Off-Balance Sheet Arrangements, Enterprise-Wide Risk Management, Future Changes in Accounting Policies and Other Regulatory Developments sections contain certain forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Refer to the Caution Regarding Forward-Looking Statements section for a discussion of such risks and uncertainties and the material factors and assumptions related to the statements set forth in such sections.

Factors That May Affect Future Results

As noted in the following Caution Regarding Forward-Looking Statements, all forward-looking statements and information, by their nature, are subject to inherent risks and uncertainties, both general and specific, which may cause actual results to differ materially from the expectations expressed in any forward-looking statement. The Enterprise-Wide Risk Management section describes a number of risks, including credit and counterparty, market, insurance, liquidity and funding, operational non-financial, legal and regulatory, strategic, environmental and social, and reputation risk. Should our risk management framework prove ineffective, there could be a material impact on our financial position and results.

Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States *Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. Forward-looking statements in this document may include, but are not limited to, statements with respect to our objectives and priorities for fiscal 2024 and beyond, our strategies or future actions, our targets and commitments (including with respect to net zero emissions), expectations for our financial condition, capital position, the regulatory environment in which we operate, the results of, or outlook for, our operations or the Canadian, U.S. and international economies, plans for the combined operations of BMO and Bank of the West, and include statements made by our management. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "project", "intend", "estimate", "plan", "goal", "commit", "target", "may", "might", "schedule", "forecast", "outlook", "timeline", "suggest", "seek" and "could" or negative or grammatical variations thereof.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements, as a number of factors – many of which are beyond our control and the effects of which can be difficult to predict – could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including, but not limited to: general economic and market conditions in the countries in which we operate, including labour challenges; the anticipated benefits from acquisitions, including Bank of the West, are not realized; changes to our credit ratings; the emergence or continuation of widespread health emergencies or pandemics, and their impact on local, national or international economies, as well as their heightening of certain risks that may affect our future results; cyber and cloud security, including the threat of data breaches, hacking, identity theft and corporate espionage, as well as the possibility of denial of service resulting from efforts targeted at causing system failure and service disruption; technology resiliency; failure of third parties to comply with their obligations to us; political conditions, including changes relating to, or affecting, economic or trade matters; climate change and other environmental and social risks; the Canadian housing market and consumer leverage; inflationary pressures; technological innovation and competition; changes in monetary, fiscal or economic policy; changes in laws, including tax legislation and interpretation, or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs and capital requirements; weak, volatile or illiquid capital or credit markets; the level of competition in the geographic and business areas in which we operate; exposure to, and the resolution of, significant litigation or regulatory matters, our ability to successfully appeal adverse outcomes of such matters and the timing, determination and recovery of amounts related to such matters; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans, complete proposed acquisitions or dispositions and integrate acquisitions, including obtaining regulatory approvals; critical accounting estimates and judgments, and the effects of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks, including with respect to reliance on third parties; global capital markets activities; the possible effects on our business of war or terrorist activities; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; and our ability to anticipate and effectively manage risks arising from all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational non-financial, legal and regulatory, strategic, environmental and social, and reputation risk in the Enterprise-Wide Risk Management section, as updated by quarterly reports, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting shareholders and analysts in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document include those set out in the Economic Developments and Outlook section, and the Allowance for Credit Losses section, as updated by quarterly reports. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

About BMO

Established in 1817, BMO Financial Group (BMO, Bank of Montreal, the bank, we, our, us) is the eighth largest bank in North America by assets, with total assets of $1.29 trillion. We are a highly diversified financial institution providing a broad range of personal and commercial banking, wealth management, global markets and investment banking products and services. We serve thirteen million customers across Canada and the United States, and in select markets globally, through three integrated operating groups: Personal and Commercial Banking, BMO Wealth Management and BMO Capital Markets.

At BMO, we continue to build a high-performing, digitally-enabled, future-ready bank with engaged employees and a winning culture. We are focused on helping our customers make real financial progress, and on financing our clients' growth and innovation, while also investing in our workforce. Anchored by our Purpose, we are driven by our strategic priorities for growth, strengthened by our approach to sustainability and guided by our values as we build a foundation of trust with our stakeholders.

Our Purpose: Boldly Grow the Good *in business and life*

BMO has a deep sense of purpose – to be a champion of progress and a catalyst for change. We are leveraging our position as a leading financial services provider in order to create opportunities for our communities and our stakeholders to make positive, sustainable change – because we believe that success can and must be mutual. Our bold commitments for a thriving economy, a sustainable future and an inclusive society are reflected in our active, direct response to today's most pressing challenges:

- **Thriving economy** – Providing access to capital and valuable financial advice – investing in businesses, supporting home ownership and strengthening the communities we serve, while driving innovation that makes banking easier.
- **Sustainable future** – Being our clients' lead partner in the transition to a net zero world, delivering on our commitments to sustainable financing and responsible investing.
- **Inclusive society** – Committing to zero barriers to inclusion through investments, financial products and services, and partnerships that remove systemic barriers for under-represented customers, employees and communities – and drive inclusion and equitable growth for everyone.

Our Strategic Priorities

The strength and consistency of our performance are essential to realizing our Purpose. We aim to deliver top-tier total shareholder return and achieve our financial objectives by aligning our operations with, and executing on, our strategic priorities. Keeping the fundamentals of our strategy consistent, we renewed our priorities for fiscal 2024 to reflect our strong momentum in an environment of ongoing transformation:

- **World-class** loyalty and growth, powered by One Client leadership, bringing the full suite of BMO's products, services and advice to our clients
- **Winning culture** driven by alignment, empowerment and recognition
- **Digital First** for speed, scale and the elimination of complexity
- **Be our clients' lead partner** in the **transition** to a **net zero world**
- **Superior management** of **risk, capital** and **funding** performance

Our group strategic priorities align with and support our enterprise-wide strategy, positioning us well to achieve competitive performance. The operating group strategies are outlined in the 2023 Operating Groups Performance Review.

Our Approach to Sustainability

Our commitment to sustainability is embedded in our strategy and is fundamental to our Purpose. We identify the most significant effects of our business operations, products and services on our stakeholders and the communities in which we operate. We take steps to manage our business in a manner that is consistent with our sustainability objectives, while also considering the interests of our stakeholders. We apply a variety of environmental, social and governance (ESG) practices and benchmarks to capture opportunities and manage risks in key areas such as sustainable finance, climate change, human rights, and diversity, equity and inclusion.

Our Values

Four core values shape our culture and underpin our choices and actions:

- **Integrity**
- **Diversity**
- **Responsibility**
- **Empathy**

Caution
This About BMO section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

Financial Objectives and Value Measures

Results and measures in this section are presented on a reported and an adjusted basis, as well as a gross and net revenue basis, and management considers all of these to be useful in assessing our performance. We believe that the non-GAAP measures and ratios presented here, read together with our GAAP results, provide readers with a better understanding of how management assesses results and are a better reflection of ongoing business performance.

Adjusted results and measures in this section, including earnings per share (EPS), EPS growth, return on equity (ROE), return on tangible common equity (ROTCE), net income, revenue, non-interest expense, efficiency ratio and operating leverage, are non-GAAP amounts, measures and ratios, and are discussed in the Non-GAAP and Other Financial Measures section.

We also present reported and adjusted revenue on a basis that is net of insurance claims, commissions and changes in policy benefit liabilities (CCPB), and we calculate our efficiency ratio and operating leverage on a similar basis. Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets, caused by movements in interest rates and equity markets, that is largely offset in CCPB. Presenting our revenue, efficiency ratio and operating leverage on a net basis allows for a better assessment of operating results.

Measures and ratios on a net revenue basis are non-GAAP amounts. For more information on CCPB, refer to the Non-GAAP and Other Financial Measures section. Information regarding the composition of each of these measures is also provided in the Glossary of Financial Terms.

Financial Objectives

	Financial objectives (adjusted)	Reported basis			Adjusted basis (1)		
As at and for the periods ended October 31, 2023		1-year	3-year (2)	5-year (2)	1-year	3-year (2)	5-year (2)
Earnings per share growth (%)	7-10%	(71.6)	(9.1)	(7.0)	(11.4)	15.0	5.5
Average return on equity (%)	15% or more	6.0	14.6	13.3	12.3	14.7	13.6
Average return on tangible common equity (%)	18% or more	8.2	16.8	15.5	15.8	17.1	15.9
Operating leverage, net of CCPB (%) (3)	2% or more	(45.9)	(6.8)	(3.2)	(8.2)	–	0.7
Common Equity Tier 1 Ratio (%)	Exceed regulatory requirement	12.5	na	na	na	na	na
Total shareholder return (%)	Top-tier	(12.5)	14.3	5.6	na	na	na

(1) Adjusted results and measures are non-GAAP amounts and measures and are discussed in the Non-GAAP and Other Financial Measures section.
(2) The 3-year and 5-year EPS growth rate and operating leverage, net of CCPB, reflect compound annual growth rates (CAGR).
(3) Operating leverage, net of CCPB, on a reported and adjusted basis presented in this table are non-GAAP measures and are discussed in the Non-GAAP and Other Financial Measures section.
na – not applicable

BMO's business planning process is rigorous, sets ambitious goals and considers prevailing economic conditions, our risk appetite, our customers' evolving needs and the opportunities available across our lines of business. It includes clear and direct accountability for annual performance that is measured against both internal and external benchmarks and progress toward our strategic priorities.

We have established medium-term financial objectives for certain important performance measures, which are set out above. Medium-term is generally defined as three to five years, and performance is assessed on an adjusted basis. We aim to deliver top-tier total shareholder return and achieve our financial objectives by aligning our operations with, and executing on, our strategic priorities.

These objectives serve as guideposts and they assume a normal business environment. Our ability to meet these objectives in any single period may be adversely affected by changes in the economic environment, or extraordinary developments. We recognize that in managing our operations and our exposure to risk, current profitability and our ability to meet these objectives in a single period must be balanced with the need to invest in our businesses for long-term sustainability and future growth.

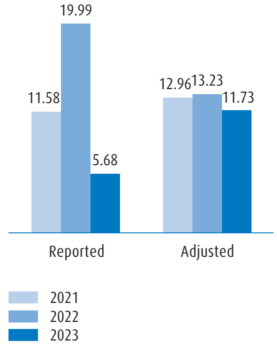
Our financial objectives and our performance against these objectives are outlined in the table above and described in the sections that follow.

Earnings per Share Growth

All references to earnings per share (EPS) are to diluted EPS, unless otherwise indicated.

EPS was $5.68 in 2023, a decrease of $14.31 or 72% from $19.99 in 2022. Adjusted EPS was $11.73, a decrease of $1.50 or 11% from $13.23 in 2022. The decrease in EPS reflected lower earnings and a higher number of common shares outstanding. Net income available to common shareholders decreased 70% year-over-year on a reported basis, and decreased 5% on an adjusted basis. The average number of diluted common shares outstanding increased 7% from 2022, reflecting common shares issued during the year through a public offering, private placements, the dividend reinvestment plan, acquisitions and the stock option plan.

EPS ($)



Earnings per Share (EPS) is calculated by dividing net income attributable to bank shareholders, after deducting preferred share dividends and distributions on other equity instruments, by the average number of common shares outstanding. Adjusted EPS is calculated in the same manner, using adjusted net income attributable to bank shareholders. Diluted EPS, which is BMO's basis for measuring performance, adjusts for possible conversions of financial instruments into common shares if those conversions would reduce EPS, and is more fully explained in Note 23 of the audited annual consolidated financial statements.

Return on Equity and Return on Tangible Common Equity

Reported return on equity (ROE) was 6.0% in 2023 and adjusted ROE was 12.3%, compared with 22.9% and 15.2%, respectively, in 2022. Reported ROE decreased due to lower net income, primarily due to lower revenue in the current year resulting from the impact of fair value management actions related to the acquisition of Bank of the West, and higher expenses in the current year due to higher acquisition and integration-related costs. Reported and adjusted ROE decreased due to the impact of share issuances, as well as lower earnings.

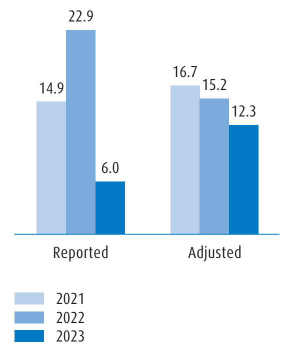
There was a decrease of $9,272 million in reported net income available to common shareholders and a decrease of $476 million in adjusted net income available to common shareholders in the current year. Average common shareholders' equity increased $9.4 billion or 16% from 2022, primarily due to the issuance of common shares and growth in retained earnings, partially offset by a decrease in accumulated other comprehensive income.

Reported return on tangible common equity (ROTCE) was 8.2%, compared with 25.1% in 2022, and adjusted ROTCE was 15.8%, compared with 16.6% in 2022. Reported and adjusted ROTCE decreased due to lower earnings, partially offset by lower tangible common equity. Book value per share increased 2% from the prior year to $97.17, reflecting the increase in shareholders' equity.

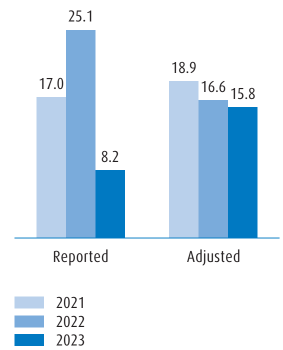
Return on Common Shareholders' Equity (ROE) is calculated as net income, less preferred dividends and distributions on other equity instruments, as a percentage of average common shareholders' equity. Common shareholders' equity comprises common share capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings. Adjusted ROE is calculated using adjusted net income rather than reported net income.

Return on Tangible Common Equity (ROTCE) is calculated as net income available to common shareholders, adjusted for the amortization of acquisition-related intangible assets, as a percentage of average tangible common equity. Average tangible common equity comprises common shareholders' equity, less goodwill and acquisition-related intangible assets, net of related deferred tax liabilities. Adjusted ROTCE is calculated using adjusted net income rather than reported net income.

ROE (%)



ROTCE (%)



Efficiency Ratio and Operating Leverage

BMO's reported gross efficiency ratio was 68.0% in 2023, compared with 48.0% in 2022. On a net revenue basis [(1)], the reported efficiency ratio was 72.5%, compared with 47.1% in 2022, and the adjusted efficiency ratio was 59.8%, compared with 55.8% in 2022. The increase in the efficiency ratio reflected revenue growth that was more than offset by higher expense growth, as well as the impact of Bank of the West, which operated at a higher efficiency ratio.

Reported operating leverage was negative 38.5%. On a net revenue basis, reported operating leverage was negative 45.9%, and adjusted operating leverage was negative 8.2%.

(1) Net revenue comprises revenue, net of insurance claims, commissions and changes in policy benefit liabilities (CCPB).

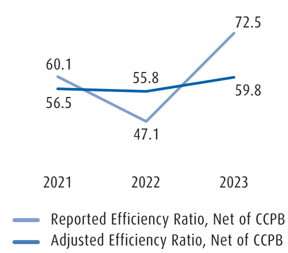
Efficiency Ratio (or expense-to-revenue ratio) is a measure of productivity. It is calculated as non-interest expense divided by total revenue (on a taxable equivalent basis in the operating groups), expressed as a percentage.

Efficiency Ratio, net of insurance claims, commissions and changes in policy benefits (CCPB), is calculated as non-interest expense divided by total revenue, net of CCPB (on a taxable equivalent basis in the operating groups), expressed as a percentage. Adjusted efficiency ratio, net of CCPB, is calculated in the same manner as efficiency ratio, net of CCPB, utilizing adjusted revenue, net of CCPB, and adjusted non-interest expense.

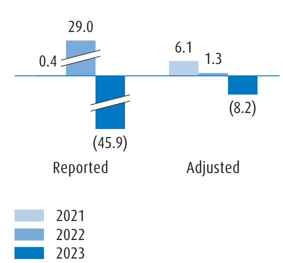
Operating Leverage is the difference between the growth rates of revenue and non-interest expense, and adjusted operating leverage is the difference between the growth rates of adjusted revenue and adjusted non-interest expense.

Operating Leverage, net of insurance claims, commissions and changes in policy benefit liabilities (CCPB), is the difference between the growth rates of revenue, net of CCPB (net revenue) and non-interest expense. Adjusted operating leverage, net of CCPB, is calculated using the growth rates of adjusted net revenue and adjusted non-interest expense. The bank evaluates performance using adjusted net revenue.

Efficiency Ratio, Net of CCPB (%)



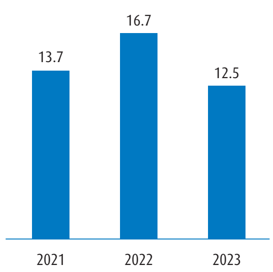
Operating Leverage, Net of CCPB (%)



Common Equity Tier 1 Ratio

Our Common Equity Tier 1 (CET1) Ratio was 12.5% as at October 31, 2023, compared with 16.7% as at October 31, 2022. Our CET1 Ratio was elevated at the end of fiscal 2022, primarily driven by fair value management actions related to the acquisition of Bank of the West. The CET1 Ratio decreased from the prior year, primarily as a result of the acquisition and integration of Bank of the West.

Common Equity Tier 1 (CET1) Ratio is calculated as CET1 capital, which comprises common shareholders' equity, net of deductions for goodwill, intangible assets, pension assets, certain deferred tax assets and other items (which may include a portion of expected credit loss provisions), divided by risk-weighted assets. The CET1 Ratio is calculated in accordance with OSFI's Capital Adequacy Requirements (CAR) Guideline.



Total Shareholder Return

For the year ended October 31	**2023**	2022	2021	2020	2019	**3-year CAGR** (1)	**5-year CAGR** (1)
Closing market price per common share ($)	**104.79**	125.49	134.37	79.33	97.50	**9.7**	**1.3**
Dividends paid ($ per share)	**5.72**	5.11	4.24	4.21	3.99	**10.8**	**9.0**
Dividend yield (%)	**5.5**	4.3	3.2	5.3	4.2	**nm**	**nm**
Increase (decrease) in share price (%)	**(16.5)**	(6.6)	69.4	(18.6)	(0.9)	**nm**	**nm**
Total annual shareholder return (%) (2)	**(12.5)**	(3.1)	75.9	(14.6)	3.2	**14.3**	**5.6**
Canadian peer group average (excluding BMO) (3)	**(8.8)**	(6.2)	56.1	(11.5)	11.4	**10.0**	**5.5**

(1) Compound annual growth rate (CAGR) expressed as a percentage.
(2) Total annual shareholder return assumes reinvestment of quarterly dividends and therefore does not equal the sum of dividend and share price returns in the table.
(3) As at October 31, 2023; peers: BNS, CIBC, NB, RBC, TD.
nm – not meaningful

The average annual total shareholder return (TSR) is a key measure of shareholder value, and over time, we expect that execution on our strategic priorities will drive value creation for our shareholders. The one-year, three-year and five-year average annual TSR was negative 12.5%, positive 14.3% and positive 5.6%, respectively, compared with our Canadian peer group average (excluding BMO) of negative 8.8%, positive 10.0% and positive 5.5%, respectively.

The table above summarizes dividends paid on BMO's common shares over the past five years and the movements in our share price. An investment of $1,000 in BMO common shares made at the beginning of fiscal 2019 would have been worth $1,315 as at October 31, 2023, assuming reinvestment of dividends, for a total return of 31.5%.

Dividends declared per common share in fiscal 2023 totalled $5.80, an increase of $0.36 from $5.44 in the prior year. Dividends paid over a five-year period have increased at an average annual compound rate of approximately 9%.

The annual **Total Shareholder Return (TSR)** represents the average annual total return earned on an investment in BMO common shares made at the beginning of the respective period. The return includes the change in share price and assumes dividends received were reinvested in additional common shares.

Caution
This Financial Objectives and Value Measures section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

MD&A

Supporting a Sustainable and Inclusive Future

In support of our customers, communities and employees, in 2023 we:

- Launched BMO EMpower™ 2.0, pledging more than US$40 billion to support organizations in communities across the United States focused on advancing home ownership, growing small businesses, strengthening communities, and creating a more equitable society.
- Exceeded BMO's annual Employee Giving Campaign target with our employees contributing more than $31 million to the United Way and thousands of other community organizations across North America, while also setting a new record for pledges.
- Announced the 2022 recipients of $150,000 in grants awarded to twelve Canadian women entrepreneurs as part of the BMO Celebrating Women Grant Program for women-owned businesses across Canada, in collaboration with Deloitte. The program is in its third year and has supported 56 women-owned businesses to date in Canada, with grants totalling $530,000.
- Were named to the United Nations Principles for Responsible Banking, Nature Target Setting Working Group, focused on developing guidance for setting biodiversity and nature targets – the only Canadian bank among 34 signatories from 24 countries.
- Invested $15 million in the Feel Out Loud campaign, sponsored by Kids Help Phone to expand access to clinical care and services in Canada through its e-mental health platform for youth. As a founding partner of Kids Help Phone, and with the help of our employees, we have raised more than $40 million to support this campaign to date.
- Continued to drive progress for mental health treatment with a $5 million donation to the Centre for Addiction and Mental Health (CAMH) to support independent research at its Krembil Centre for Neuroinformatics and help e also donated $2 million to the Royal Ottawa Health Care Group (The Royal) to support the newly-established BMO Innov , providing more treatment options for people living with depression.

The secret animal #4 is a

- Released Wîcihitowin, our third annual Indigenous Partnerships and Progress Repo on advancing education, employment and economic empowerment in First Nations, Inuit and Métis communities. In add ew members of our Indigenous Advisory Council (IAC), which now includes leaders from across Canada.

BMO's leadership continues to be recognized in a significant number of rankings, including:

- Ranked among the most sustainable companies on the Dow Jones Sustainability Indices (DJSI). In addition, BMO ranked in the 95th percentile among banks globally and earned the highest possible score in the areas of Environmental Reporting, Social Reporting and Financial Inclusion.
- Named one of *Corporate Knights*' 2023 Global 100 Most Sustainable Corporations in the World and, for the fourth consecutive year, ranked as North America's most sustainable bank. We ranked eighth in the world and in the top 15% of banks globally for Sustainable Revenue and received high marks for diversity on our Board of Directors and the representation of diversity in our senior leadership.
- Included in *Corporate Knights'* list of Canada's Best 50 Corporate Citizens, with top-quartile scores in board gender diversity and the representation of visible minorities in our executive leadership – the only Canadian bank named to this listing. We also received a top-quartile Sustainable Revenue score, demonstrating our ongoing commitment to sustainable financing and responsible investing.
- Recognized by the World Benchmarking Alliance (WBA) as the world's top-ranked financial institution for supporting progress toward a just and sustainable economy.
- Included for the eighth consecutive year in the Bloomberg Gender-Equality Index (GEI), in recognition of BMO's global leadership in gender equity and inclusion within the workplace and the community, and for publicly demonstrating our commitment to equality and the advancement of women.
- Recognized by Ethisphere Institute as one of the World's Most Ethical Companies for the sixth consecutive year, remaining the only Canadian bank to be honoured with this designation since its inception in 2007. The designation affirms our commitment to doing what is right and operating with transparency, good governance and integrity in support of a thriving economy, a sustainable future and an inclusive society.
- Included for the third consecutive year in the 2023 Women Lead Here list published by the *Globe and Mail* in its Report on Business magazine to recognize Canadian businesses for excellence in gender diversity in executive roles. Our objective for gender equality in our senior leadership has been above 40% since 2016, and we continue to support advancing diversity, equity and inclusion across the bank.
- Received a top score on the Disability Equality Index (DEI) for the eighth consecutive year. BMO was named one of the Best Places to Work for Disability Inclusion by Disability:IN and the American Association of People with Disabilities (AAPD), in recognition of our continued focus and progress on building an inclusive society for our employees and the communities we serve.

Caution

This Supporting a Sustainable and Inclusive Future section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

Financial Highlights

(Canadian $ in millions, except as noted)	2023	2022
Summary Income Statement (1)		
Net interest income	**18,681**	15,885
Non-interest revenue	**12,518**	17,825
Revenue	**31,199**	33,710
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**1,939**	(683)
Revenue, net of CCPB (2)	**29,260**	34,393
Provision for credit losses on impaired loans	**1,180**	502
Provision for (recovery of) credit losses on performing loans	**998**	(189)
Total provision for credit losses (PCL)	**2,178**	313
Non-interest expense	**21,219**	16,194
Provision for income taxes	**1,486**	4,349
Net income	**4,377**	13,537
Net income available to common shareholders	**4,034**	13,306
Adjusted net income	**8,675**	9,039
Adjusted net income available to common shareholders	**8,332**	8,808
Common Share Data ($, except as noted) (1)		
Basic earnings per share	**5.69**	20.04
Diluted earnings per share	**5.68**	19.99
Adjusted diluted earnings per share	**11.73**	13.23
Book value per share	**97.17**	95.60
Closing share price	**104.79**	125.49
Number of common shares outstanding (in millions)		
End of period	**720.9**	677.1
Average basic	**709.4**	664.0
Average diluted	**710.5**	665.7
Market capitalization ($ billions)	**75.5**	85.0
Dividends declared per share	**5.80**	5.44
Dividend yield (%)	**5.5**	4.3
Dividend payout ratio (%)	**102.0**	27.1
Adjusted dividend payout ratio (%)	**49.4**	41.0
Financial Measures and Ratios (%) (1)		
Return on equity	**6.0**	22.9
Adjusted return on equity	**12.3**	15.2
Return on tangible common equity	**8.2**	25.1
Adjusted return on tangible common equity	**15.8**	16.6
Efficiency ratio	**68.0**	48.0
Adjusted efficiency ratio, net of CCPB (2)	**59.8**	55.8
Operating leverage	**(38.5)**	19.6
Adjusted operating leverage, net of CCPB (2)	**(8.2)**	1.3
Net interest margin on average earning assets	**1.63**	1.62
Net interest margin on average earning assets excluding trading revenue and trading assets	**1.82**	1.72
Effective tax rate	**25.3**	24.3
Adjusted effective tax rate	**22.3**	22.8
Total PCL-to-average net loans and acceptances	**0.35**	0.06
PCL on impaired loans-to-average net loans and acceptances	**0.19**	0.10
Liquidity coverage ratio (LCR) (3)	**128**	135
Net stable funding ratio (NSFR) (3)	**115**	114
Balance Sheet and Other Information (as at October 31, $ millions, except as noted)		
Assets	**1,293,276**	1,139,199
Average earning assets	**1,145,632**	979,341
Gross loans and acceptances	**668,396**	567,191
Net loans and acceptances	**664,589**	564,574
Deposits	**909,676**	769,478
Common shareholders' equity	**70,051**	64,730
Total risk-weighted assets (4)	**424,197**	363,997
Assets under administration	**808,985**	744,442
Assets under management	**332,947**	305,462
Capital Ratios (%) (4)		
Common Equity Tier 1 Ratio	**12.5**	16.7
Tier 1 Capital Ratio	**14.1**	18.4
Total Capital Ratio	**16.2**	20.7
Leverage Ratio	**4.2**	5.6
TLAC Ratio	**27.0**	33.1
Foreign Exchange Rates ($)		
As at October 31, Canadian/U.S. dollar	**1.3868**	1.3625
Average Canadian/U.S. dollar	**1.3492**	1.2918

(1) Adjusted results exclude certain items from reported results and are used to calculate our adjusted measures as presented in the above table. Management assesses performance on a reported basis and an adjusted basis, and considers both to be useful. Revenue, net of CCPB, as well as reported ratios calculated net of CCPB, and adjusted results, measures and ratios in this table are non-GAAP amounts. For further information, refer to the Non-GAAP and Other Financial Measures section; for details on the composition of non-GAAP amounts, measures and ratios, as well as supplementary financial measures, refer to the Glossary of Financial Terms.

(2) We present revenue, efficiency ratio and operating leverage on a basis that is net of CCPB, which reduces the variability in insurance revenue resulting from changes in fair value that are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in CCPB. For further information, refer to the Insurance Claims, Commissions and Changes in Policy Benefits section.

(3) LCR and NSFR are disclosed in accordance with the Liquidity Adequacy Requirements (LAR) Guideline as set out by the Office of the Superintendent of Financial Institutions (OSFI), as applicable.

(4) Capital ratios and risk-weighted assets are disclosed in accordance with the Capital Adequacy Requirements (CAR) Guideline, as set out by OSFI, as applicable.

Non-GAAP and Other Financial Measures

Results and measures in this document are presented on a generally accepted accounting principles (GAAP) basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from our audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. References to GAAP mean IFRS. We use a number of financial measures to assess our performance, as well as the performance of our operating segments, including amounts, measures and ratios that are presented on a non-GAAP basis, as described below. We believe that these non-GAAP amounts, measures and ratios, read together with our GAAP results, provide readers with a better understanding of how management assesses results.

Non-GAAP amounts, measures and ratios do not have standardized meanings under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from, or as a substitute for, GAAP results.

For further information regarding the composition of non-GAAP and other financial measures, including supplementary financial measures, refer to the Glossary of Financial Terms.

Our non-GAAP measures broadly fall into the following categories:

Adjusted measures and ratios

Management considers both reported and adjusted results and measures to be useful in assessing underlying ongoing business performance. Adjusted results and measures remove certain specified items from revenue, non-interest expense, provision for credit losses and income taxes, as detailed in the following table. Adjusted results and measures presented in this document are non-GAAP amounts. Presenting results on both a reported basis and an adjusted basis permits readers to assess the impact of certain items on results for the periods presented, and to better assess results excluding those items that may not be reflective of ongoing business performance. As such, the presentation may facilitate readers' analysis of trends. Except as otherwise noted, management's discussion of changes in reported results in this document applies equally to changes in the corresponding adjusted results.

Measures net of insurance claims, commissions and changes in policy benefit liabilities

We also present reported and adjusted revenue on a basis that is net of insurance claims, commissions and changes in policy benefit liabilities (CCPB), and our efficiency ratio and operating leverage are calculated on a similar basis. Measures and ratios presented on a basis net of CCPB are non-GAAP amounts. Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets caused by movements in interest rates and equity markets. The investments that support policy benefit liabilities are predominantly fixed income assets recorded at fair value, with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in CCPB. The presentation and discussion of revenue, efficiency ratios and operating leverage on a net basis reduces this variability, which allows for a better assessment of operating results. For more information, refer to the Insurance Claims, Commissions and Changes in Policy Benefit Liabilities sect

Tangible common equity and retu

The secret instrument is a

Tangible common equity is calculated as co ted intangible assets, net of related deferred tax liabilities. Return on tangible common equity is commonly used in the N y and is meaningful because it measures the performance of businesses consistently, whether they were acquired or

Caution

This Non-GAAP and Other Financial Measures section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

Non-GAAP and Other Financial Measures

(Canadian $ in millions, except as noted)	**2023**	2022	2021
Reported Results			
Net interest income	**18,681**	15,885	14,310
Non-interest revenue	**12,518**	17,825	12,876
Revenue	**31,199**	33,710	27,186
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**(1,939)**	683	(1,399)
Revenue, net of CCPB	**29,260**	34,393	25,787
Provision for credit losses	**(2,178)**	(313)	(20)
Non-interest expense	**(21,219)**	(16,194)	(15,509)
Income before income taxes	**5,863**	17,886	10,258
Provision for income taxes	**(1,486)**	(4,349)	(2,504)
Net income	**4,377**	13,537	7,754
Diluted EPS ($)	**5.68**	19.99	11.58
Adjusting Items Impacting Revenue (Pre-tax)			
Impact of divestitures (1)	**–**	(21)	29
Management of fair value changes on the purchase of Bank of the West (2)	**(2,011)**	7,713	–
Legal provision (including related interest expense and legal fees) (3)	**(30)**	(515)	–
Impact of Canadian tax measures (4)	**(138)**	–	–
Impact of adjusting items on revenue (pre-tax)	**(2,179)**	7,177	29
Adjusting Items Impacting Provision for Credit Losses (Pre-tax)			
Initial provision for credit losses on purchased performing loans (pre-tax) (5)	**(705)**	–	–
Adjusting Items Impacting Non-Interest Expense (Pre-tax)			
Acquisition and integration costs (6)	**(2,045)**	(326)	(9)
Amortization of acquisition-related intangible assets (7)	**(357)**	(31)	(88)
Impact of divestitures (1)	**–**	(16)	(886)
Legal provision (including related interest expense and legal fees) (3)	**3**	(627)	–
Restructuring (costs) reversals (8)	**–**	–	24
Impact of Canadian tax measures (4)	**(22)**	–	–
Impact of adjusting items on non-interest expense (pre-tax)	**(2,421)**	(1,000)	(959)
Impact of adjusting items on reported net income (pre-tax)	**(5,305)**	6,177	(930)
Adjusting Items Impacting Revenue (After-tax)			
Impact of divestitures (1)	**–**	(23)	22
Management of fair value changes on the purchase of Bank of the West (2)	**(1,461)**	5,667	–
Legal provision (including related interest expense and legal fees) (3)	**(23)**	(382)	–
Impact of Canadian tax measures (4)	**(115)**	–	–
Impact of adjusting items on revenue (after-tax)	**(1,599)**	5,262	22
Adjusting Items Impacting Provision for Credit Losses (After-tax)			
Initial provision for credit losses on purchased performing loans (after-tax) (5)	**(517)**	–	–
Adjusting Items Impacting Non-Interest Expense (After-tax)			
Acquisition and integration costs (6)	**(1,533)**	(245)	(7)
Amortization of acquisition-related intangible assets (7)	**(264)**	(23)	(66)
Impact of divestitures (1)	**–**	(32)	(864)
Legal provision (including related interest expense and legal fees) (3)	**2**	(464)	–
Restructuring (costs) reversals (8)	**–**	–	18
Impact of Canadian tax measures (4)	**(16)**	–	–
Impact of adjusting items on non-interest expense (after-tax)	**(1,811)**	(764)	(919)
Adjusting Items Impacting Provision for Income Taxes			
Impact of Canadian tax measures (4)	**(371)**	–	–
Impact of adjusting items on reported net income (after-tax)	**(4,298)**	4,498	(897)
Impact on diluted EPS ($)	**(6.05)**	6.76	(1.38)
Adjusted Results			
Net interest income	**19,094**	16,352	14,310
Non-interest revenue	**14,284**	10,181	12,847
Revenue	**33,378**	26,533	27,157
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**(1,939)**	683	(1,399)
Revenue, net of CCPB	**31,439**	27,216	25,758
Provision for credit losses	**(1,473)**	(313)	(20)
Non-interest expense	**(18,798)**	(15,194)	(14,550)
Income before income taxes	**11,168**	11,709	11,188
Provision for income taxes	**(2,493)**	(2,670)	(2,537)
Net income	**8,675**	9,039	8,651
Diluted EPS ($)	**11.73**	13.23	12.96

(1) Reported net income included the impact of divestitures related to the sale of our EMEA and U.S. Asset Management businesses and our Private Banking business. Fiscal 2022 included a gain of $6 million ($8 million pre-tax) related to the transfer of certain U.S. asset management clients and a $29 million (pre-tax and after-tax) loss related to foreign currency translation reclassified from accumulated other comprehensive income, both recorded in non-interest revenue, and expenses of $32 million ($16 million pre-tax), including taxes of $22 million on closing of the sale of the business recorded in non-interest expense. Fiscal 2021 included a $779 million (pre-tax and after-tax) write-down of goodwill related to the sale of our EMEA and U.S. Asset Management businesses recorded in non-interest expense, a $22 million ($29 million pre-tax) net gain on the sale of our Private Banking business recorded in non-interest revenue, and $85 million ($107 million pre-tax) of divestiture-related costs for both transactions recorded in non-interest expense. These amounts were recorded in Corporate Services.

(2) Fiscal 2023 reported net income included a loss of $1,461 million ($2,011 million pre-tax) related to the acquisition of Bank of the West resulting from the management of the impact of interest rate changes between the announcement and closing of the acquisition on its fair value and goodwill, comprising $1,628 million of mark-to-market losses on certain interest rate swaps recorded in trading revenue and $383 million of losses on a portfolio of primarily U.S. treasuries and other balance sheet instruments recorded in net interest income. Fiscal 2022 included revenue of $5,667 million ($7,713 million pre-tax), comprising $7,665 million of mark-to-market gains and $48 million of non-trading interest income. These amounts were recorded in Corporate Services. For further information on this acquisition, refer to the Recent Acquisitions section.

(3) Fiscal 2023 reported net income included the impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank, of $21 million ($27 million pre-tax), comprising interest expense of $30 million and a net non-interest expense recovery of $3 million. Fiscal 2022 included a provision of $846 million ($1,142 million pre-tax), comprising interest expense of $515 million and non-interest expense of $627 million. These amounts were recorded in Corporate Services. For further information, refer to the Provisions and Contingent Liabilities section in Note 24 of the audited annual consolidated financial statements.

(4) Fiscal 2023 reported net income included the impact of certain tax measures enacted by the Canadian government. These tax measures included a one-time tax expense of $371 million, comprising a Canada Recovery Dividend (CRD) of $312 million and $59 million related to the pro-rated fiscal 2022 impact of the 1.5% tax rate increase, net of a deferred tax asset remeasurement, and a charge of $131 million ($160 million pre-tax) related to the amended GST/HST definition for financial services, comprising $138 million recorded in non-interest revenue and $22 million recorded in non-interest expense. These amounts were recorded in Corporate Services.

(5) Fiscal 2023 reported net income included a provision for credit losses of $517 million ($705 million pre-tax) on the purchased Bank of the West performing loan portfolio, recorded in Corporate Services.

(6) Fiscal 2023 reported net income included acquisition and integration costs of $1,533 million ($2,045 million pre-tax), comprising $1,520 million ($2,027 million pre-tax) related to Bank of the West, $4 million ($5 million pre-tax) related to Radicle and Clearpool, and $9 million ($13 million pre-tax) related to AIR MILES. Fiscal 2022 included acquisition and integration costs of $245 million ($326 million pre-tax), comprising $237 million ($316 million pre-tax) related to Bank of the West and $8 million ($10 million pre-tax) related to Radicle, Clearpool and KGS-Alpha. Fiscal 2021 included acquisition and integration costs of $7 million ($9 million pre-tax) related to Clearpool and KGS-Alpha. These amounts were recorded in non-interest expense. Bank of the West acquisition and integration costs were recorded in Corporate Services; Radicle, Clearpool and KGS-Alpha costs were recorded in BMO Capital Markets; and AIR MILES costs were recorded in Canadian P&C.

(7) Amortization of acquisition-related intangible assets of $264 million ($357 million pre-tax) in fiscal 2023, $23 million ($31 million pre-tax) in fiscal 2022, and $66 million ($88 million pre-tax) in fiscal 2021 were recorded in non-interest expense in the related operating group.

(8) Fiscal 2021 reported net income included a partial reversal of $18 million ($24 million pre-tax) of restructuring charges related to severance recorded in 2019 in non-interest expense, in Corporate Services.

Summary of Reported and Adjusted Results by Operating Segment

(Canadian $ in millions, except as noted)	**Canadian P&C**	**U.S. P&C**	**Total P&C**	**BMO Wealth Management**	**BMO Capital Markets**	**Corporate Services**	**Total Bank**	**U.S. Segment** (1) (US$ in millions)
2023								
Reported net income (loss)	**3,718**	**2,724**	**6,442**	**1,126**	**1,682**	**(4,873)**	**4,377**	**90**
Acquisition and integration costs	**9**	**–**	**9**	**–**	**4**	**1,520**	**1,533**	**1,124**
Amortization of acquisition-related intangible assets	**6**	**234**	**240**	**4**	**20**	**–**	**264**	**186**
Management of fair value changes on the purchase of Bank of the West	**–**	**–**	**–**	**–**	**–**	**1,461**	**1,461**	**1,093**
Legal provision (including related interest expense and legal fees)	**–**	**–**	**–**	**–**	**–**	**21**	**21**	**15**
Impact of Canadian tax measures	**–**	**–**	**–**	**–**	**–**	**502**	**502**	**–**
Initial provision for credit losses on purchased performing loans	**–**	**–**	**–**	**–**	**–**	**517**	**517**	**379**
Adjusted net income (loss)	**3,733**	**2,958**	**6,691**	**1,130**	**1,706**	**(852)**	**8,675**	**2,887**
2022								
Reported net income	3,826	2,497	6,323	1,251	1,772	4,191	13,537	6,079
Acquisition and integration costs	–	–	–	–	8	237	245	185
Amortization of acquisition-related intangible assets	1	5	6	3	14	–	23	17
Impact of divestitures	–	–	–	–	–	55	55	(45)
Management of fair value changes on the purchase of Bank of the West	–	–	–	–	–	(5,667)	(5,667)	(4,312)
Legal provision (including related interest expense and legal fees)	–	–	–	–	–	846	846	621
Adjusted net income (loss)	3,827	2,502	6,329	1,254	1,794	(338)	9,039	2,545

(1) U.S. segment reported and adjusted results comprise net income recorded in U.S. P&C and our U.S. operations in BMO Wealth Management, BMO Capital Markets and Corporate Services.

Refer to footnotes (1) to (8) in the Non-GAAP and Other Financial Measures table for further information on adjusting items.

Net Revenue, Efficiency Ratio and Operating Leverage

(Canadian $ in millions, except as noted) For the year ended October 31	**2023**	2022	2021
Reported			
Net interest income	**18,681**	15,885	14,310
Non-interest revenue	**12,518**	17,825	12,876
Revenue	**31,199**	33,710	27,186
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**1,939**	(683)	1,399
Revenue, net of CCPB	[illegible]	34,393	25,787
Non-interest expense	[illegible]	16,194	15,509
Efficiency ratio (%)	[illegible]	48.0	57.0
Efficiency ratio, net of CCPB (%)	[illegible]	47.1	60.1
Revenue growth (%)	[illegible]	24.0	7.9
Revenue growth, net of CCPB (%)	**(14.9)**	33.4	9.8
Non-interest expense growth (%)	**31.0**	4.4	9.4
Operating leverage (%)	**(38.5)**	19.6	(1.5)
Operating leverage, net of CCPB (%)	**(45.9)**	29.0	0.4
Adjusted (1)			
Net interest income	**19,094**	16,352	14,310
Non-interest revenue	**14,284**	10,181	12,847
Revenue	**33,378**	26,533	27,157
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**1,939**	(683)	1,399
Revenue, net of CCPB	**31,439**	27,216	25,758
Non-interest expense	**18,798**	15,194	14,550
Efficiency ratio (%)	**56.3**	57.3	53.6
Efficiency ratio, net of CCPB (%)	**59.8**	55.8	56.5
Revenue growth, net of CCPB (%)	**15.5**	5.7	9.7
Non-interest expense growth (%)	**23.7**	4.4	3.6
Operating leverage, net of CCPB (%)	**(8.2)**	1.3	6.1

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(1) Refer to footnotes (1) to (8) in the Non-GAAP and Other Financial Measures table for further information on adjusting items.

Return on Equity and Return on Tangible Common Equity

(Canadian $ in millions, except as noted) For the year ended October 31	**2023**	2022	2021
Reported net income	**4,377**	13,537	7,754
Net income attributable to non-controlling interest in subsidiaries	**12**	–	–
Net income attributable to bank shareholders	**4,365**	13,537	7,754
Dividends on preferred shares and distributions on other equity instruments	**(331)**	(231)	(244)
Net income available to common shareholders (A)	**4,034**	13,306	7,510
After-tax amortization of acquisition-related intangible assets	**264**	23	66
Net income available to common shareholders after adjusting for amortization of acquisition-related intangible assets (B)	**4,298**	13,329	7,576
After-tax impact of other adjusting items (1)	**4,034**	(4,521)	831
Adjusted net income available to common shareholders (C)	**8,332**	8,808	8,407
Average common shareholders' equity (D)	**67,486**	58,078	50,451
Goodwill	**(13,466)**	(5,051)	(5,836)
Acquisition-related intangible assets	**(2,197)**	(130)	(381)
Net of related deferred liabilities	**856**	251	271
Average tangible common equity (E)	**52,679**	53,148	44,505
Return on equity (%) (= A/D)	**6.0**	22.9	14.9
Adjusted return on equity (%) (= C/D)	**12.3**	15.2	16.7
Return on tangible common equity (%) (= B/E)	**8.2**	25.1	17.0
Adjusted return on tangible common equity (%) (= C/E)	**15.8**	16.6	18.9

(1) Refer to footnotes (1) to (8) in the Non-GAAP and Other Financial Measures table for further information on adjusting items.

Return on Equity by Operating Segment (1)

(Canadian $ in millions, except as noted)	Canadian P&C	U.S. P&C	Total P&C	BMO Wealth Management	BMO Capital Markets	Corporate Services	Total Bank	U.S. Segment (2) (US$ in millions)
2023								
Reported								
Net income available to common shareholders	**3,677**	**2,672**	**6,349**	**1,118**	**1,648**	**(5,081)**	**4,034**	**56**
Total average common equity	**13,672**	**27,889**	**41,561**	**6,356**	**11,856**	**7,713**	**67,486**	**27,203**
Return on equity (%)	**26.9**	**9.6**	**15.3**	**17.6**	**13.9**	**na**	**6.0**	**0.2**
Adjusted (3)								
Net income available to common shareholders	**3,692**	**2,906**	**6,598**	**1,122**	**1,672**	**(1,060)**	**8,332**	**2,853**
Total average common equity	**13,672**	**27,889**	**41,561**	**6,356**	**11,856**	**7,713**	**67,486**	**27,203**
Return on equity (%)	**27.0**	**10.4**	**15.9**	**17.7**	**14.1**	**na**	**12.3**	**10.5**

(Canadian $ in millions, except as noted)	Canadian P&C	U.S. P&C	Total P&C	BMO Wealth Management	BMO Capital Markets	Corporate Services	Total Bank	U.S. Segment (2) (US$ in millions)
2022								
Reported								
Net income available to common shareholders	3,783	2,461	6,244	1,243	1,732	4,087	13,306	6,052
Total average common equity	11,798	13,815	25,613	5,282	11,556	15,627	58,078	17,081
Return on equity (%)	32.1	17.8	24.4	23.5	15.0	na	22.9	35.4
Adjusted (3)								
Net income available to common shareholders	3,784	2,466	6,250	1,246	1,754	(442)	8,808	2,518
Total average common equity	11,798	13,815	25,613	5,282	11,556	15,627	58,078	17,081
Return on equity (%)	32.1	17.8	24.4	23.6	15.2	na	15.2	14.7

(1) Return on equity is based on allocated capital. In fiscal 2023, following the closing of the Bank of the West acquisition, capital was allocated from Corporate Services to U.S. P&C and BMO Wealth Management. For further information, refer to the How BMO Reports Operating Group Results section.
(2) U.S. segment reported and adjusted results comprise net income and allocated capital recorded in U.S. P&C and our U.S. operations in BMO Wealth Management, BMO Capital Markets and Corporate Services.
(3) Refer to footnotes (1) to (8) in the Non-GAAP and Other Financial Measures table for further information on adjusting items.

na – not applicable

Capital is allocated to the operating segments based on the amount of regulatory capital required to support business activities. Effective the first quarter of fiscal 2023, our capital allocation rate increased to 11.0% of risk-weighted assets, compared with 10.5% in 2022, to reflect increased regulatory capital requirements. Unallocated capital is reported in Corporate Services. Capital allocation methodologies are reviewed annually.

Recent Acquisitions

On February 1, 2023, we completed our acquisition of Bank of the West, including its subsidiaries, from BNP Paribas. Bank of the West provides a broad range of banking products and services, primarily in the Western and Midwestern regions of the United States. The acquisition strengthens our position in North America with increased scale and greater access to growth opportunities in strategic new markets. We completed the conversion of Bank of the West customer accounts and systems to our respective BMO operating platforms in September 2023. The acquisition has been reflected in our results as a business combination, primarily in the U.S. P&C and BMO Wealth Management reporting segments.

On closing, we recognized purchase accounting fair value marks on Bank of the West's loans and deposits of $3.0 billion and discounts on securities of $3.5 billion on our balance sheet, in accordance with International Financial Reporting Standards (IFRS). As previously disclosed, to manage the exposure of our regulatory capital to the risk of changes in the fair value of the assets and liabilities of Bank of the West due to changes in interest rates between the announcement and closing of the acquisition, we entered into interest rate swaps that resulted in cumulative mark-to-market gains of $5.7 billion on closing. Any exposure to interest rate risk in relation to these interest rate swaps was largely offset by our purchase of a portfolio of matched-duration U.S. treasuries and other balance sheet instruments. On closing, the swaps were neutralized and replaced with fair value accounting hedges, which in effect crystallized the unrealized loss position on our balance sheet. Accretion of the fair value marks and the discount on securities will increase net interest income, and the amortization of the fair value hedge will decrease net interest income over the remaining term of these instruments, both of which will be recorded in Corporate Services.

On June 1, 2023, we completed the acquisition of the AIR MILES Reward Program (AIR MILES) business of LoyaltyOne Co. The AIR MILES business operates as a wholly-owned subsidiary of BMO. The acquisition was accounted for as a business combination and the acquired business and corresponding goodwill are included in our Canadian P&C reporting segment.

For more information on the acquisition of Bank of the West and AIR MILES, refer to Note 10 of the audited annual consolidated financial statements.

Caution
This Recent Acquisitions section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

Economic Developments and Outlook

Economic Developments in 2023 and Outlook for 2024 (1)

After reaching 3.8% in 2022, growth in Canada's real gross domestic product (GDP) will likely slow to a modest estimated rate of 1.0% in 2023, due to the impact of higher interest rates and weaker global demand. The economy is expected to expand by only 0.5% in 2024, although activity should improve later in the year when interest rates are projected to begin to decline. A moderation in the pace of employment growth, coupled with rapid expansion of the population and labour force, has lifted the unemployment rate to 5.7% in October 2023 from a half-century low of 4.9% in July 2022, and we anticipate this rate will rise to approximately 6.5% in the summer of 2024. Looser labour market conditions are starting to relieve upward pressure on wages and prices. Year-over-year growth in the consumer price index has declined from a four-decade high of 8.1% in June 2022 to 3.1% in October 2023. Although inflation is projected to moderate further, it will likely remain above the Bank of Canada's 2% target until late 2024 due to elevated oil prices and lingering wage pressures. After raising the policy rate by 475 basis points from March 2022 to July 2023, the Bank of Canada has since held the policy rate steady at 5%. With the rate of economic growth and inflation projected to slow, the Bank of Canada will likely forgo further interest rate increases, before gradually reducing rates starting in mid-2024 to more neutral levels below 3.0% in early 2026. Interest rate concerns and a weaker economy have depressed equity markets. Housing market activity rebounded earlier this year due to steadier mortgage rates and strong population growth, but sales have weakened recently and will likely be held back by the ongoing lack of affordability. Housing prices are expected to decline moderately in response to lower demand. Industry-wide growth in residential mortgage balances has decelerated from more than 10% year-over-year in early 2022 to 3.2% in September 2023, and will likely moderate somewhat further. Year-over-year growth in consumer credit balances (excluding mortgages), which was 2.4% in September 2023, has been restrained by high interest rates, and is anticipated to moderate further as households curtail spending. After rising strongly in recent years, growth in non-financial corporate credit balances has decelerated sharply in 2023 in response to higher interest rates, a weakening economy and elevated cash balances, and will likely slow further in 2024.

The U.S. economy is estimated to grow at a moderate rate of 2.4% in 2023, up from 1.9% in 2022, before likely slowing to 1.3% in 2024. Resiliency in the first three quarters of 2023, amid expansionary fiscal policies and pent-up demand for entertainment, travel and automobiles, is expected to give way to much weaker activity at the turn of the year in response to higher interest rates, tighter lending conditions and the resumption of student loan repayments. Housing market activity remains depressed due to high mortgage rates and rising home prices, and sales are anticipated to remain soft as the economy weakens. The unemployment rate is projected to rise from 3.9% in October 2023 to 4.4% by the middle of 2024, which is still low by historical standards. Lower commodity prices and smoother-running supply chains have reduced year-over-year growth in the consumer price index from 9.1% in June 2022 to 3.2% in October 2023. However, inflation is expected to moderate more slowly in the year ahead, reflecting continued pressure from elevated energy prices and rising wages. The Federal Reserve held its policy rate steady in the fall of 2023 after cumulative increases of 525 basis points since March 2022. We anticipate that the policy rate will hold steady at around 5.4% until the fall of 2024, before returning to more neutral levels below 3.0% by early 2026. The yield on 10-year Treasury bonds has risen to 16-year highs due to the economy's resiliency, elevated inflation and restrictive monetary policies, but is forecast to decline gradually in 2024 ahead of an easing in monetary policy. Equity markets have been volatile as a result of rising long-term interest rates and fears of a recession. Earlier strong growth in industry-wide residential mortgage balances has slowed considerably as a result of weaker housing market activity, and will likely moderate somewhat further given the ongoing lack of affordability. Year-over-year growth in consumer credit balances has also decelerated and is projected to slow further amid elevated interest rates, higher unemployment and slower consumer spending. Non-financial corporate credit growth has decelerated from its previously strong pace and will remain impacted by high interest rates, a slowing economy, and a drawdown of deposit balances.

The economic outlook is subject to several risks that could potentially cause a contraction of the North American economy. The persistence of elevated inflation could lead to additional increases in interest rates and renewed stress in the U.S. regional banking sector. Any escalation of the conflicts in Ukraine and the Middle East could raise energy prices, unsettle financial markets and weaken global growth. Other risks stem from ongoing trade tensions with China, and a deterioration in diplomatic relations between Canada and India that could impede trade and tourism in Canada.

Caution

This Economic Developments and Outlook section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

(1) All time periods in this section refer to the calendar year rather than BMO's fiscal year.

2023 Financial Performance Review

This section provides a review of BMO's enterprise financial performance for 2023 that focuses on the Consolidated Statement of Income in BMO's audited annual consolidated financial statements. A review of the operating groups' strategies and performance follows the enterprise review.

We use a number of financial measures to assess our performance, as well as the performance of our operating segments, including amounts, measures and ratios that are presented on a non-GAAP basis. We believe that these non-GAAP amounts, measures and ratios, read together with our GAAP results, provide readers with a better understanding of how management assesses results.

Non-GAAP amounts, measures and ratios do not have standardized meanings under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from, or as a substitute for, GAAP results.

Further discussion of non-GAAP amounts, measures and ratios is provided in the Non-GAAP and Other Financial Measures section.

For further information regarding the composition of non-GAAP and other financial measures, including supplementary financial measures, refer to the Glossary of Financial Terms.

Foreign Exchange

(Canadian $ in millions, except as noted)	2023 vs. 2022
Canadian/U.S. dollar exchange rate (average)	
2023	**1.3492**
2022	**1.2918**
Effects on U.S. segment reported results	
Increased (Decreased) net interest income	**273**
Increased (Decreased) non-interest revenue	**476**
Increased (Decreased) total revenue	**749**
Decreased (Increased) provision for credit losses	**1**
Decreased (Increased) non-interest expense	**(285)**
Decreased (Increased) provision for income taxes	**(117)**
Increased (Decreased) net income	**348**
Impact on earnings per share ($)	**0.52**
Effects on U.S. segment adjusted results	
Increased (Decreased) net interest income	**292**
Increased (Decreased) non-interest revenue	**142**
Increased (Decreased) total revenue	**434**
Decreased (Increased) provision for credit losses	**1**
Decreased (Increased) non-interest expense	**(246)**
Decreased (Increased) provision for income taxes	**(43)**
Increased (Decreased) net income	**146**
Impact on earnings per share ($)	**0.22**

Adjusted results are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.

The table above indicates the relevant average Canadian/U.S. dollar exchange rates and the impact of changes in those rates on BMO's U.S. segment reported and adjusted results.

The Canadian dollar equivalents of BMO's U.S. segment results that are denominated in U.S. dollars increased in 2023 relative to 2022, due to changes in the Canadian/U.S. dollar exchange rate. References in this document to the impact of the U.S. dollar do not include U.S. dollar-denominated amounts recorded outside of BMO's U.S. segment.

Economically, our U.S. dollar income stream was not hedged against the risk of changes in foreign exchange rates during 2023 and 2022. Changes in exchange rates will affect future results measured in Canadian dollars, and the impact on those results is a function of the periods in which revenue, expenses and provisions for (or recoveries of) credit losses and income taxes arise.

Refer to the Enterprise-Wide Capital Management section for a discussion of the impact that changes in foreign exchange rates can have on BMO's capital position.

Net Income

Reported net income was $4,377 million, compared with $13,537 million in the prior year, and adjusted net income was $8,675 million, a decrease of $364 million or 4%. The inclusion of Bank of the West results in the current year decreased reported net income by $1,498 million, and increased adjusted net income by $592 million. The impact of the stronger U.S. dollar increased net income by 1% on a reported basis, and 2% on an adjusted basis.

Adjusted results in the current year and the prior year excluded the following items:

- Acquisition and integration costs of $1,533 million ($2,045 million pre-tax) in the current year and $245 million ($326 million pre-tax) in the prior year, recorded in non-interest expense. The current year included acquisition and integration costs of $1,520 million ($2,027 million pre-tax) related to Bank of the West.
- A loss of $1,461 million ($2,011 million pre-tax) in the current year related to the management of the impact of interest rate changes between the announcement and closing of the Bank of the West acquisition on its fair value and goodwill, comprising $1,628 million of mark-to-market losses on certain interest rate swaps recorded in non-interest trading revenue and $383 million of losses on a portfolio of primarily U.S. treasuries and other balance sheet instruments recorded in net interest income. The prior year included revenue of $5,667 million ($7,713 million pre-tax), comprising $7,665 million of non-interest trading revenue and $48 million of net interest income.
- Initial provision for credit losses of $517 million ($705 million pre-tax) in the current year on the purchased Bank of the West performing loan portfolio.
- Amortization of acquisition-related intangible assets of $264 million ($357 million pre-tax) in the current year and $23 million ($31 million pre-tax) in the prior year, recorded in non-interest expense. The current year included amortization of acquisition-related intangible assets of $231 million ($311 million pre-tax) related to Bank of the West.
- The impact of certain tax measures enacted by the Canadian government in the current year, including a one-time tax expense of $371 million, comprising a Canada Recovery Dividend (CRD) of $312 million and $59 million related to the pro-rated fiscal 2022 impact of a 1.5% tax rate increase, net of a deferred tax asset remeasurement, and a charge of $131 million ($160 million pre-tax) related to the amended GST/HST definition for financial services, comprising $138 million recorded in non-interest revenue and $22 million recorded in non-interest expense.
- The impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank, of $21 million ($27 million pre-tax) in the current year, comprising interest expense of $30 million and a net non-interest expense recovery of $3 million. The prior year included $846 million ($1,142 million pre-tax), comprising interest expense of $515 million and non-interest expense of $627 million.
- The impact of divestitures of $55 million ($37 million pre-tax) in the prior year related to the sale of our EMEA business and the transfer of certain U.S. asset management clients, comprising a net loss of $21 million recorded in non-interest revenue and expenses of $16 million, including taxes of $22 million on closing of the sale.

Reported net income decreased from the prior year, primarily due to the items noted above, which in aggregate reduced net income by $4,298 million, compared with a gain of $4,498 million in the prior year. Adjusted net income decreased, as the inclusion of Bank of the West and higher underlying revenue were more than offset by higher expenses and a higher provision for credit losses. Reported and adjusted net income increased in U.S. P&C and decreased in BMO Wealth Management, Canadian P&C and BMO Capital Markets. On a reported basis, Corporate Services recorded a net loss, compared with net income in the prior year, primarily due to the items noted above. On an adjusted basis, Corporate Services recorded a higher net loss.

Further discussion is provided in the 2023 Operating Groups Performance Review section.

For further information on non-GAAP amounts, measures and ratios in this Net Income section, refer to the Non-GAAP and Other Financial Measures section.

MD&A

Revenue

(Canadian $ in millions, on a pre-tax basis) For the year ended October 31	**2023**	2022
Net interest income	**18,681**	15,885
Non-interest revenue	**12,518**	17,825
Total revenue	**31,199**	33,710
Insurance claims, commissions and changes in policy benefit liabilities (CCPB) (1)	**1,939**	(683)
Revenue, net of CCPB (1)	**29,260**	34,393
Impact of divestitures (2)	**–**	21
Management of fair value changes on the purchase of Bank of the West (3)	**2,011**	(7,713)
Legal provision (including related interest expense and legal fees) (4)	**30**	515
Impact of Canadian tax measures (5)	**138**	–
Impact of adjusting items on revenue	**2,179**	(7,177)
Adjusted revenue (2) (3) (4)	**33,378**	26,533
Adjusted revenue, net of CCPB (1) (2) (3) (4)	**31,439**	27,216

(1) Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets caused by movements in interest rates and equity markets. The investments that support policy benefit liabilities are predominantly fixed income assets recorded at fair value, with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. These fair value changes are largely offset by changes in the fair value of policy benefit liabilities, the impact of which is reflected in CCPB. The presentation of revenue on a basis net of CCPB, reduces variability in results, which allows for a better assessment of operating results. For further information, refer to the Insurance Claims, Commissions and Changes in Policy Benefits section.

(2) Fiscal 2022 reported revenue included non-interest revenue related to the sale of our EMEA and U.S. Asset Management businesses, comprising a gain of $8 million related to the transfer of certain U.S. asset management clients and a $29 million loss related to foreign currency translation reclassified from accumulated other comprehensive income to non-interest revenue, recorded in Corporate Services.

(3) Reported revenue included revenue (losses) related to the acquisition of Bank of the West resulting from the management of the impact of interest rate changes between the announcement and closing of the acquisition on its fair value and goodwill. Fiscal 2023 included a loss of $2,011 million, comprising $1,628 million of mark-to-market losses on certain interest rate swaps recorded in trading revenue and $383 million of losses on a portfolio of primarily U.S. treasuries and other balance sheet instruments recorded in net interest income. Fiscal 2022 included revenue of $7,713 million, comprising $7,665 million of mark-to-market gains and $48 million of non-trading interest income. These amounts were recorded in Corporate Services. For further information on this acquisition, refer to the Recent Acquisitions section.

(4) Reported revenue included the impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank. Interest expense of $30 million was recorded in fiscal 2023 and $515 million was recorded in fiscal 2022. These amounts were recorded in Corporate Services. For further information, refer to the Provisions and Contingent Liabilities section in Note 24 of the audited annual consolidated financial statements.

(5) Fiscal 2023 reported revenue included the impact of certain tax measures enacted by the Canadian government. These tax measures included a charge of $138 million related to the amended GST/HST definition for financial services, recorded in non-interest revenue in Corporate Services.

Revenue, net of CCPB, and adjusted results are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.

Reported revenue was $31,199 million, a decrease of $2,511 million or 7% from the prior year. On a basis that r mmissions and changes in policy benefit liabilities (CCPB) against insurance revenu rease of $5,133 million or 15% from the prior year, and adjusted net revenue clusion of Bank of the West contributed $3,143 million to both reported and adjusted revenue in the current year. The i dollar increased revenue by 2% on both a reported and an adjusted basis.

The decrease in reported net revenue primarily reflected the impact of fair value management actions and the impact of certain tax measures enacted by the Canadian government, partially offset by lower interest expense due to the legal provision related to the lawsuit associated with M&I Marshall and Ilsley Bank in the prior year. Net revenue increased across all operating groups and decreased in Corporate Services on both a reported and an adjusted basis.

BMO analyzes revenue at the consolidated level based on GAAP revenue as reported in the audited annual consolidated financial statements, on a basis net of insurance CCPB, and on an adjusted basis.

Further discussion is provided in the 2023 Operating Groups Performance Review section.

For further information on non-GAAP amounts, measures and ratios, and results presented on a net revenue basis in this Revenue section, refer to the Non-GAAP and Other Financial Measures section.

Net Interest Income comprises earnings on assets, such as loans and securities, including interest and certain dividend income, less interest expense paid on liabilities, such as deposits. Net interest income, excluding trading, is presented on a basis that excludes trading-related interest income and earning assets.

Net Interest Margin is the ratio of net interest income to average earning assets, expressed as a percentage or in basis points. Net interest margin, excluding trading, is computed in the same manner, excluding trading-related interest income and earning assets.

Net Non-Interest Revenue is non-interest revenue, net of insurance claims, commissions and changes in policy benefit liabilities (CCPB).

Average Earning Assets represents the daily average balance of deposits at central banks, deposits with other banks, securities borrowed or purchased under resale agreements, securities, and loans over a one-year period.

Trading-Related Revenue includes net interest income and non-interest revenue earned from on-balance sheet and off-balance sheet positions undertaken for trading purposes, and is dependent on, among other things, the volume of activities undertaken for clients who enter into transactions with BMO to mitigate their risks or to invest, as well as market conditions. We earn a spread or profit on the net sum of our client positions by profitably managing, within prescribed limits, the overall risk of our net positions. On a limited basis, we also earn revenue from our principal trading positions. The management of these positions typically includes marking them to market on a daily basis. Trading-related revenue also includes income (expense) and gains (losses) from both on-balance sheet instruments and interest rate, foreign exchange (including spot positions), equity, commodity and credit contracts.

Net Interest Income

Reported net interest income was $18,681 million, an increase of $2,796 million or 18% from the prior year, and adjusted net interest income was $19,094 million, an increase of $2,742 million or 17%.

The increase in reported net interest income primarily reflected lower interest expense related to the lawsuit associated with M&I Marshall and Ilsley Bank in the prior year, partially offset by the impact of fair value management actions in the current year.

Adjusted net interest income increased due to the inclusion of Bank of the West, higher balances and margins in Canadian P&C and higher margins in U.S. P&C, as well as the impact of the stronger U.S. dollar, partially offset by a decrease in trading-related interest income, lower net interest income in Corporate Services and the impact of risk transfer transactions. Trading-related net interest income was $900 million, a decrease of $772 million, and was largely offset in trading non-interest revenue.

BMO's overall reported net interest margin of 1.63% increased 1 basis point from the prior year. Adjusted net interest margin, excluding trading-related net interest income and trading-related earning assets, was 1.86%, an increase of 8 basis points, primarily due to higher margins in our P&C businesses, including the impact of Bank of the West, partially offset by higher low-yielding assets and lower net interest income in Corporate Services.

Change in Net Interest Income, Average Earning Assets and Net Interest Margin (1)

(Canadian $ in millions, except as noted) For the year ended October 31	Net interest income (2)		Average earning assets (3)		Net interest margin (in basis points)	
	2023	2022	**2023**	2022	**2023**	2022
Canadian P&C	**8,308**	7,449	**303,855**	278,022	**273**	268
U.S. P&C	**7,853**	5,037	**202,155**	138,094	**388**	364
Personal and Commercial Banking (P&C)	**16,161**	12,486	**506,010**	416,116	**319**	300
All other operating groups and Corporate Services (4)	**2,520**	3,399	**639,622**	563,225	**na**	na
Total reported	**18,681**	15,885	**1,145,632**	979,341	**163**	162
Total adjusted	**19,094**	16,352	**1,145,632**	979,341	**167**	167
Trading-related net interest income and earning assets	**900**	1,672	**168,686**	153,875	**na**	na
Total excluding trading net interest income and earning assets	**17,781**	14,213	**976,946**	825,466	**182**	172
Total adjusted excluding trading net interest income and earning assets	**18,194**	14,680	**976,946**	825,466	**186**	178
U.S. P&C (US$ in millions)	**5,818**	3,893	**149,767**	106,829	**388**	364

(1) Adjusted results and ratios are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Operating group revenue is presented on a taxable equivalent basis (teb) in net interest income. For further information, refer to the How BMO Reports Operating Group Results section.
(3) Average earning assets represents the daily average balance of deposits with central banks, deposits with other banks, securities borrowed or purchased under resale agreements, securities, and loans, over a one-year period.
(4) For further information on net interest income for these other operating groups and Corporate Services, refer to the 2023 Operating Groups Performance Review section.
na – not applicable

Non-Interest Revenue

(Canadian $ in millions) For the year ended October 31	**2023**	2022
Securities commissions and fees	**1,025**	1,082
Deposit and payment service charges	**1,517**	1,318
Trading revenue	**(216)**	8,250
Lending fees	**1,548**	1,440
Card fees	**700**	548
Investment management and custodial fees	**1,851**	1,770
Mutual fund revenue	**1,244**	1,312
Underwriting and advisory fees	**1,107**	1,193
Securities gains, other than trading	**181**	281
Foreign exchange, other than trading	**235**	181
Insurance revenue (loss)	**2,498**	(157)
Share of profit in associates and joint ventures	**185**	274
Other	**643**	333
Total reported	**12,518**	17,825
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**1,939**	(683)
Reported non-interest revenue, net of CCPB	**10,579**	18,508
Management of fair value changes on the purchase of Bank of the West (1)	**1,628**	(7,665)
Impact of divestitures (2)	**–**	21
Impact of Canadian tax measures (3)	**138**	–
Adjusted non-interest revenue	**14,284**	10,181
Adjusted non-interest revenue, net of CCPB	**12,345**	10,864
Insurance revenue, net of CCPB	**559**	526

(1) Fiscal 2023 reported non-interest revenue included $1,628 million of mark-to-market losses on certain interest rate swaps related to the acquisition of Bank of the West resulting from the management of the impact of interest rate changes between the announcement and closing of the acquisition on its fair value and goodwill. Fiscal 2022 included $7,665 million of mark-to-market gains. These amounts were recorded in Corporate Services. For further information on this acquisition, refer to the Recent Acquisitions section.
(2) Fiscal 2022 reported non-interest revenue included the impact of divestitures related to the sale of our EMEA and U.S. Asset Management businesses of $21 million of non-interest losses, comprising a gain of $8 million related to the transfer of certain U.S. asset management clients and a $29 million loss related to foreign currency translation reclassified from accumulated other comprehensive income to non-interest revenue, recorded in Corporate Services.
(3) Fiscal 2023 reported non-interest revenue included the impact of certain tax measures enacted by the Canadian government. These tax measures included a charge of $138 million related to the amended GST/HST definition for financial services, recorded in non-interest revenue in Corporate Services.

Reported and adjusted revenue measures, net of CCPB, in this section are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.

Reported non-interest revenue was $12,518 million, a decrease of $5,307 million from the prior year. Reported non-interest revenue, net of CCPB, was $10,579 million, a decrease of $7,929 million or 43% from the prior year, and adjusted non-interest revenue, net of CCPB, was $12,345 million, an increase of $1,481 million or 14%. The inclusion of Bank of the West contributed $461 million to non-interest revenue. The impact of the stronger U.S. dollar increased non-interest revenue by 1% on both a reported and an adjusted basis.

Reported non-interest revenue, net of CCPB, decreased primarily due to the loss related to fair value management actions in the current year, compared with a gain in the prior year. Adjusted non-interest revenue, net of CCPB, increased due to the inclusion of Bank of the West and AIR MILES, higher trading and card-related revenue and the impact of the stronger U.S. dollar, partially offset by lower underwriting and advisory revenue and securities gains, other than trading. Trading-related revenue is discussed in the section that follows.

Gross insurance revenue was $2,498 million, compared with a loss of $157 million in the prior year, primarily due to changes in the fair value of investments and higher annuity sales. Insurance revenue can experience variability arising from fluctuations in the fair value of insurance assets caused by movements in interest rates and equity markets. The investments that support policy benefit liabilities are predominantly fixed income and equity assets recorded at fair value, with changes in fair value recorded in insurance revenue in the Consolidated Statement of Income. The impact of these fair value changes was largely offset by changes in the fair value of policy benefit liabilities, which are reflected in the Insurance Claims, Commissions and Changes in Policy Benefits section.

We believe analyzing revenue, net of CCPB, is useful given the extent to which insurance revenue can vary, and given that this variability is largely offset in CCPB.

For further information on results presented on a net revenue basis in this Non-Interest Revenue section, refer to the Non-GAAP and Other Financial Measures section.

Trading-Related Revenue (1)

(Canadian $ in millions) (taxable equivalent basis) For the year ended October 31	**2023**	2022
Interest rates	**770**	893
Foreign exchange	**638**	571
Equities	**931**	950
Commodities	**192**	189
Other	**(1,526)**	7,556
Total (teb) (2)	**1,005**	10,159
Teb offset	**321**	237
Reported total	**684**	9,922
Management of fair value changes on the purchase of Bank of the West (3)	**1,628**	(7,665)
Adjusted total trading revenue	**2,312**	2,257
Reported as:		
Net interest income	**1,221**	1,909
Non-interest revenue – trading revenue	**(216)**	8,250
Total (teb)	**1,005**	10,159
Teb offset	**321**	237
Reported total, net of teb offset	**684**	9,922
Adjusted total trading revenue	**2,312**	2,257

(1) Reported and adjusted revenue measures are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Trading-related revenue presented on a taxable equivalent basis (teb) is a non-GAAP measure. Similar to other banks, BMO analyzes trading-related revenue on a taxable equivalent basis (teb), which reflects an increase in net interest income on tax-exempt securities to equivalent pre-tax amounts and is useful in facilitating comparisons of income from taxable and tax-exempt sources.
(3) Fiscal 2023 trading-related revenue included $1,628 million of mark-to-market losses on certain interest rate swaps related to the announced acquisition of Bank of the West resulting from the management of the impact of interest rate changes between the announcement and closing of the acquisition on its fair value and goodwill. Fiscal 2022 included $7,665 million of mark-to-market gains. These amounts were recorded in other trading revenue, in Corporate Services. For further information on this acquisition, refer to the Recent Acquisitions section.

Reported trading-related revenue on a teb basis was $1,005 million, a decrease of $9,154 million, primarily due to the impact of fair value management actions related to the acquisition of Bank of the West. Adjusted trading-related revenue on a teb basis was $2,633 million, an increase of $139 million or 6%. Foreign exchange trading-related revenue increased $67 million or 12%, due to higher levels of client activity. Equities and commodities trading-related revenue was relatively unchanged from the prior year. Interest rate trading-related revenue decreased $123 million or 14%, due to lower levels of client activity. Adjusted other trading-related revenue on a teb basis increased $211 million, primarily due to mark-downs on loan underwriting commitments recorded in the prior year.

Refer to the Enterprise-Wide Risk Management – Market Risk section for more information on trading-related revenue.

Insurance Claims, Commissions and Changes in Policy Benefit Liabilities

Insurance claims, commissions and changes in policy benefit liabilities (CCPB) were $1,939 million in 2023, compared with negative $683 million in the prior year. CCPB increased, primarily due to changes in the fair value of policy benefit liabilities and the impact of higher annuity sales. The changes were largely offset in revenue.

Total Provision for Credit Losses

(Canadian $ in millions)	Canadian P&C	U.S. P&C	Total P&C	BMO Wealth Management	BMO Capital Markets	Corporate Services	Total Bank
2023							
Provision for credit losses on impaired loans	**784**	**380**	**1,164**	**5**	**9**	**2**	**1,180**
Provision for credit losses on performing loans	**146**	**130**	**276**	**13**	**9**	**700**	**998**
Total provision for credit losses	**930**	**510**	**1,440**	**18**	**18**	**702**	**2,178**
Initial provision for credit losses on purchased performing loans (1)	**–**	**–**	**–**	**–**	**–**	**(705)**	**(705)**
Adjusted total provision for (recovery of) credit losses (2)	**930**	**510**	**1,440**	**18**	**18**	**(3)**	**1,473**
Total PCL-to-average net loans and acceptances (%) (3)	**0.30**	**0.26**	**0.28**	**0.04**	**0.02**	**nm**	**0.35**
PCL on impaired loans-to-average net loans and acceptances (%) (3)	**0.25**	**0.20**	**0.23**	**0.01**	**0.01**	**nm**	**0.19**
2022							
Provision for (recovery of) credit losses on impaired loans	432	107	539	2	(32)	(7)	502
Provision for (recovery of) credit losses on performing loans	(91)	(90)	(181)	(4)	(11)	7	(189)
Total provision for (recovery of) credit losses	341	17	358	(2)	(43)	–	313
Total PCL-to-average net loans and acceptances (%) (3)	0.12	0.01	0.09	(0.01)	(0.07)	nm	0.06
PCL on impaired loans-to-average net loans and acceptances (%) (3)	0.15	0.08	0.13	–	(0.05)	nm	0.10

(1) Fiscal 2023 comprised an initial provision for credit losses of $705 million on the purchased Bank of the West performing loan portfolio, recorded in Corporate Services.

(2) Adjusted results exclude certain items from reported results and are used to calculate our adjusted measures as presented in the above table. Management assesses performance on a reported basis and an adjusted basis, and considers both to be useful. For further information, refer to the Non-GAAP and Other Financial Measures section, and for details on the composition of non-GAAP amounts, measures and ratios, as well as supplementary financial measures, refer to the Glossary of Financial Terms.

(3) Ratios are presented on an annualized basis.

nm – not meaningful

The total provision for credit losses (PCL) was $2,178 million on a reported basis and $1,473 million on an adjusted basis, compared with $313 million on both a reported and adjusted basis in the prior year. Total PCL as a percentage of average net loans and acceptances was 35 basis points on a reported basis and 24 basis points on an adjusted basis, compared with 6 basis points on both a reported and adjusted basis in the prior year. PCL on impaired loans was $1,180 million, an increase of $678 million from the prior year, with higher provisions across all businesses. PCL on impaired loans as a percentage of average net loans and acceptances was 19 basis points, compared with 10 basis points in the prior year. The provision for credit losses on performing loans in the current year was $998 million on a reported basis and $293 million on an adjusted basis, compared with a reported and adjusted recovery of credit losses of $189 million in the prior year. Reported PCL on performing loans included an initial provision of $705 million on the purchased Bank of the West performing loan portfolio. On an adjusted basis, PCL on performing loans of $293 million in the current year primarily reflected portfolio credit migration, uncertainty in credit conditions and balance growth, partially offset by an improvement in the macroeconomic outlook and the continued benefit from risk transfer transactions.

Note 4 of the audited annual consolidated financial statements provides additional information on PCL, including on a geographic basis. Table 12 in the Supplemental Information provides further segmented PCL information.

Provision for Credit Losses (PCL) is a charge to income that represents an amount deemed adequate by management to fully provide for impairment in a portfolio of loans and acceptances and other credit instruments, given the composition of the portfolio, the probability of default, the economic outlook and the allowance for credit losses already established. PCL can comprise both a provision for credit losses on impaired loans and a provision for credit losses on performing loans. For further information, refer to the Credit and Counterparty Risk – Provision for Credit Losses section, the Critical Accounting Estimates and Judgments – Allowance for Credit Losses section and Note 4 of the audited annual consolidated financial statements.

Average Net Loans and Acceptances is the daily or monthly average balance of loans and customers' liability under acceptances, net of the allowance for credit losses, over a one-year period.

Non-Interest Expense (1)

(Canadian $ in millions, on a pre-tax basis) For the year ended October 31	2023	2022
Employee compensation		
Salaries	**6,602**	4,467
Performance-based compensation	**3,565**	3,193
Employee benefits	**1,348**	1,135
Total employee compensation	**11,515**	8,795
Total premises and equipment	**4,879**	3,635
Amortization of intangible assets	**1,015**	604
Other expenses		
Advertising and business development	**814**	517
Communications	**368**	278
Professional fees	**1,147**	788
Other	**1,481**	1,577
Total other expenses	**3,810**	3,160
Total non-interest expense	**21,219**	16,194
Acquisition and integration costs (2)	**(2,045)**	(326)
Amortization of acquisition-related intangible assets (3)	**(357)**	(31)
Impact of divestitures (4)	**–**	(16)
Legal provision (including related interest expense and legal fees) (5)	**3**	(627)
Impact of Canadian tax measures (6)	**(22)**	–
Impact of adjusting items on non-interest expense	**(2,421)**	(1,000)
Total adjusted non-interest expense	**18,798**	15,194
Efficiency ratio (%)	**68.0**	48.0
Efficiency ratio, net of CCPB (%) (1)	**72.5**	47.1
Adjusted efficiency ratio (%)	**56.3**	57.3
Adjusted efficiency ratio, net of CCPB (%) (1)	**59.8**	55.8

(1) Reported and adjusted results, measures and ratios, net of CCPB, are on a non-GAAP basis. For a quantitative reconciliation of revenue, net of CCPB, and adjusted results, refer to the Revenue section and the Non-GAAP and Other Financial Measures section.
(2) Reported non-interest expense included acquisition and integration costs of $2,027 million in fiscal 2023 and $316 million in fiscal 2022 related to the acquisition of Bank of the West, recorded in Corporate Services. In addition, reported non-interest expense included acquisition and integration costs of $5 million related to Radicle and Clearpool in fiscal 2023 and $10 million related to KGS-Alpha and Clearpool in fiscal 2022, recorded in BMO Capital Markets. Fiscal 2023 included acquisition and integration costs of $13 million related to the acquisition of AIR MILES, recorded in Canadian P&C.
(3) Reported non-interest expense included amortization of acquisition-related intangible assets of $357 million in fiscal 2023 and $31 million in fiscal 2022, recorded in the related operating group.
(4) Fiscal 2022 reported non-interest expense included the impact of divestitures of $32 million, including taxes of $22 million, related to the sale of our EMEA and U.S. Asset Management businesses, recorded in Corporate Services.
(5) Reported non-interest expense included the impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank. Fiscal 2023 included a net non-interest expense recovery of $3 million and fiscal 2022 included a provision of $627 million. These amounts were recorded in Corporate Services. For further information, refer to the Provisions and Contingent Liabilities section in Note 24 of the audited annual consolidated financial statements.
(6) Fiscal 2023 reported non-interest expense included the impact of certain tax measures enacted by the Canadian government, comprising $22 million related to the amended GST/HST definition for financial services, recorded in Corporate Services.

na – not applicable

Reported non-interest expense was $21,219 million, an increase of $5,025 million or 31% from the prior year. Adjusted non-interest expense was $18,798 million, an increase of $3,604 million or 24% from the prior year. The inclusion of Bank of the West contributed $4,284 million to reported non-interest expense and $2,181 million on an adjusted basis. The impact of the stronger U.S. dollar increased non-interest expense by 2% on both a reported and an adjusted basis.

Reported results included higher acquisition and integration costs and amortization of acquisition-related intangible assets compared with the prior year, partially offset by the lower legal expense related to the lawsuit associated with M&I Marshall and Ilsley Bank in the prior year.

Reported and adjusted non-interest expense increased, primarily due to the inclusion of Bank of the West, as well as higher employee-related, technology, advertising and business development costs, legal provisions in the current year and the impact of the stronger U.S. dollar.

For further information on non-GAAP amounts, measures and ratios in this Non-Interest Expense section, refer to the Non-GAAP and Other Financial Measures section.

Provision for Income Taxes and Other Taxes

(Canadian $ in millions, except as noted) For the year ended October 31	**2023**	2022
Payroll levies	**517**	398
Property taxes	**40**	34
Provincial capital taxes	**50**	45
Business taxes	**24**	11
Harmonized sales tax, GST, VAT and other sales taxes	**563**	459
Sundry taxes	**1**	1
Total government levies other than income taxes (other taxes) (1)	**1,195**	948
Provision for income taxes	**1,486**	4,349
Provision for income taxes and other taxes	**2,681**	5,297
Provision for income taxes and other taxes as a % of income before provision for income taxes and other taxes	**38.0**	28.1
Effective income tax rate (%)	**25.3**	24.3
Adjusted effective income tax rate (%)	**22.3**	22.8

(1) Other taxes are included in various non-interest expense categories.

Provision for income taxes and other taxes and the adjusted effective tax rate are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.

The provision for income taxes and other taxes was $2,681 million in the current year. Of this amount, $1,345 million was incurred in Canada, with $498 million included in the provision for income taxes, and the remaining $847 million was recorded in total government levies other than income taxes (other taxes). The decrease from $5,297 million in the prior year primarily reflected a lower provision for income taxes.

The provision for income taxes presented in the Consolidated Statement of Income is based on transactions recorded in income, regardless of when such transactions are subject to taxation by tax authorities, with the exception of the repatriation of retained earnings from subsidiaries, as outlined in Note 22 of the audited annual consolidated financial statements.

Management assesses BMO's consolidated results and the associated provision for income taxes on a GAAP basis. We assess the performance of our operating groups and associated income taxes on a taxable equivalent basis, and we report accordingly.

The provision for income taxes was $1,486 million, compared with $4,349 million in the prior year. The reported effective tax rate was 25.3%, compared with 24.3% in the prior year, primarily due to the impact of certain Canadian tax measures during the 2023 fiscal year. The adjusted provision for income taxes was $2,493 million, compared with $2,670 million in the prior year. The adjusted effective tax rate was 22.3%, compared with 22.8% in the prior year.

BMO partially hedges, for accounting purposes, the foreign exchange risk arising from investments in foreign operations by funding the investments in the corresponding foreign currency. A gain or loss on hedging activities and an unrealized gain or loss on translation of foreign operations are charged or credited to other comprehensive income. For income tax purposes, a gain or loss on hedging activities results in an income tax charge or credit in the current period that is charged or credited to other comprehensive income, while the associated unrealized gain or loss on investments in foreign operations does not incur income taxes until the investments are liquidated. The income tax charge/benefit arising from a hedging gain/loss is a function of the fluctuations in exchange rates from period to period. Hedging of investments in foreign operations has given rise to an income tax recovery in other c 90 million in the current year, compared with a recovery of $124 million in the prior year. Refer t ncial statements for further information.

The secret currency is a

Legislative ch nterpretation by tax authorities and the courts, may impact our earnings. Refer to the discussion in the Critical Accounting ection for further information. In the table above we disclose provision for income taxes and other taxes as a percentage of income before the provision for income taxes and other taxes, which is a non-GAAP financial ratio and may not be comparable to similar financial measures disclosed by other issuers, to reflect the full impact of all government levies and taxes as a percentage of our income.

For further information on non-GAAP amounts, measures and ratios in this Provision for Income Taxes and Other Taxes section, refer to the Non-GAAP and Other Financial Measures section.

MD&A

2023 Operating Groups Performance Review

Summary

This section includes an analysis of the financial results of BMO's operating groups and descriptions of their operating segments, businesses, strategies, challenges, achievements and outlooks.

	BMO Financial Group			
Operating Groups	**Personal and Commercial (P&C) Banking**		**BMO Wealth Management**	**BMO Capital Markets**
Operating Segments	**Canadian P&C**	**U.S. P&C**	**BMO Wealth Management**	**BMO Capital Markets**
Lines of Business	• Personal and Business Banking • Commercial Banking	• Personal and Business Banking • Commercial Banking	• BMO Private Wealth • BMO InvestorLine • BMO Wealth Management U.S. • BMO Global Asset Management • BMO Insurance	• Investment and Corporate Banking • Global Markets
	Corporate Services, including Technology and Operations			

How BMO Reports Operating Group Results

BMO reports financial results for its three operating groups, one of which comprises two operating segments, all of which are supported by Corporate Units and Technology and Operations (T&O) within Corporate Services. Operating segment results include allocations from Corporate Services for treasury-related revenue, corporate and T&O costs, and capital. The impact of the Bank of the West acquisition has been reflected in our results as a business combination, primarily in the U.S. P&C and BMO Wealth Management reporting segments.

BMO employs funds transfer pricing and liquidity transfer pricing between corporate treasury and the operating segments in order to assign the appropriate cost and credit to funds for the appropriate pricing of loans and deposits, and to help assess the profitability performance of each line of business. These practices also capture the cost of holding supplemental liquid assets to meet contingent liquidity requirements, as well as facilitating the management of interest rate risk and liquidity risk within our risk appetite framework and regulatory requirements. We review our transfer pricing methodologies at least annually, in order to align with our interest rate, liquidity and funding risk management practices, and update these as appropriate.

The costs of Corporate Units and T&O services are largely allocated to the four operating segments, with any remaining amounts retained in Corporate Services. Certain expenses, directly incurred to support a specific operating segment, are generally allocated to that operating segment. Other expenses are generally allocated across the operating segments in amounts that are reasonably reflective of the level of support provided to each operating segment. We review our expense allocation methodologies annually, and update these as appropriate.

Capital is allocated to the operating segments based on the amount of regulatory capital required to support business activities. Effective fiscal 2023, our capital allocation rate increased to 11.0% of risk-weighted assets, compared with 10.5% in fiscal 2022, in order to reflect an increase in capital requirements. Unallocated capital is reported in Corporate Services. We review our capital allocation methodologies annually, and update these as appropriate.

Periodically, certain lines of business and units within our organizational structure are realigned to support our strategic priorities, and comparative figures from prior periods have been reclassified to conform with the current period's presentation.

We analyze revenue at the consolidated level based on GAAP revenue as reported in the audited annual consolidated financial statements, rather than on a taxable equivalent basis, which is consistent with our Canadian banking peer group. Like many banks, BMO analyzes revenue on a taxable equivalent basis (teb) at the operating segment level. Revenue and the provision for income taxes in BMO Capital Markets and U.S. P&C are increased on tax-exempt securities to equivalent pre-tax amounts that facilitate comparisons of income from taxable and tax-exempt sources. The offset to the segment teb adjustments is reflected in Corporate Services revenue and provision for (recovery of) income taxes.

Personal and Commercial Banking (1)

(Canadian $ in millions, except as noted) As at or for the year ended October 31	Canadian P&C 2023	Canadian P&C 2022	U.S. P&C 2023	U.S. P&C 2022	Total P&C 2023	Total P&C 2022
Net interest income (teb) (2)	**8,308**	7,449	**7,853**	5,037	**16,161**	12,486
Non-interest revenue	**2,519**	2,419	**1,573**	1,265	**4,092**	3,684
Total revenue (teb) (2)	**10,827**	9,868	**9,426**	6,302	**20,253**	16,170
Provision for credit losses on impaired loans	**784**	432	**380**	107	**1,164**	539
Provision for (recovery of) credit losses on performing loans	**146**	(91)	**130**	(90)	**276**	(181)
Total provision for (recovery of) credit losses	**930**	341	**510**	17	**1,440**	358
Non-interest expense	**4,770**	4,349	**5,502**	3,043	**10,272**	7,392
Income before income taxes	**5,127**	5,178	**3,414**	3,242	**8,541**	8,420
Provision for income taxes (teb) (2)	**1,409**	1,352	**690**	745	**2,099**	2,097
Reported net income	**3,718**	3,826	**2,724**	2,497	**6,442**	6,323
Acquisition and integration costs (3)	**9**	–	**–**	–	**9**	–
Amortization of acquisition-related intangible assets (4)	**6**	1	**234**	5	**240**	6
Adjusted net income	**3,733**	3,827	**2,958**	2,502	**6,691**	6,329
Net income available to common shareholders	**3,677**	3,783	**2,672**	2,461	**6,349**	6,244
Adjusted net income available to common shareholders	**3,692**	3,784	**2,906**	2,466	**6,598**	6,250

(1) Adjusted results are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Taxable equivalent basis (teb) amounts of $33 million in fiscal 2023 and $25 million in fiscal 2022 were recorded in net interest income, revenue and provision for income taxes.
(3) Acquisition and integration costs of $13 million pre-tax related to the acquisition of AIR MILES in fiscal 2023 were recorded in non-interest expense.
(4) Amortization of acquisition-related intangible assets pre-tax amounts of $323 million in fiscal 2023 and $7 million in fiscal 2022 were recorded in non-interest expense.

The Personal and Commercial Banking (P&C) operating group represents the sum of our two retail and commercial operating segments, Canadian Personal and Commercial Banking (Canadian P&C) and U.S. Personal and Commercial Banking (U.S. P&C). The P&C banking business reported net income was $6,442 million in 2023, an increase of $119 million or 2% from the prior year. Adjusted net income, which excludes acquisition and integration costs and the amortization of acquisition-related intangible assets, was $6,691 million in 2023, an increase of $362 million or 6% from the prior year. These operating segments are reviewed separately in the sections that follow.

For further information on non-GAAP amounts, measures and ratios in this 2023 Operating Groups Performance Review section, refer to the Non-GAAP and Other Financial Measures section.

Canadian Personal and Commercial Banking

Canadian Personal and Commercial Banking provides financial products and services to nearly eight million customers. Personal and Business Banking helps customers make real financial progress through a network of almost 900 branches, contact centres and digital banking platforms, with more than 3,200 automated teller machines. Commercial Banking serves clients across Canada, offering valuable industry expertise, local presence and a comprehensive range of commercial products and services.

Lines of Business

Personal and Business Banking (P&BB) provides customers with a wide range of products and services, including deposits, home lending, consumer credit, small business lending, credit cards, cash management, everyday financial and investment advice and other banking services, with an overall focus on providing customers with an exceptional experience in every interaction and helping them make real financial progress.

Commercial Banking provides clients with a comprehensive range of commercial products and services, including a variety of financing options and treasury and payment solutions, as well as risk management products. Our commercial bankers partner with clients to anticipate their financial needs, and share their unique expertise and industry knowledge to help them manage and grow their businesses.

Strategy and Key Priorities

2023 Priorities and Achievements

Key Priority: Build on our strong franchise to drive growth and customer loyalty by continuing to invest in differentiating capabilities and delivering enhanced One Client experiences

2023 Achievements

- Maintained strong customer loyalty in both Personal and Business Banking and Commercial Banking, as measured by Net Promoter Score (1)
- Ranked first by J.D. Power (2) for Personal Banking Customer Satisfaction among the Big 5 Banks in its 2023 Canada Retail Banking Satisfaction Study, as well as for Customer Satisfaction with Online Banking in its 2023 Canada Online Banking Satisfaction Study, with the highest scores among Canada's largest banks, demonstrating our dedication to support our customers' financial goals and achievements, as well as our focus on convenience and digital innovation across all customer channels
- Named Best Commercial Bank in Canada for the ninth consecutive year and Best Retail Bank in Canada for the second consecutive year by *World Finance* magazine, in recognition of our Digital First strategy and industry-leading delivery of personal and digital experiences that are meeting and exceeding our customers' evolving expectations, as well as best-in-class digital money management services
- Continued to grow our customer-facing, advice-based roles, strengthening our ability to engage with customers on the financial issues that are important to them

2024 Areas of Focus

- Drive strong customer loyalty, leveraging our enhanced capabilities across customer channels
- Leverage our One Client strategy to provide a connected and integrated experience to our clients, with a holistic approach to address their needs across our businesses

Key Priority: In Personal and Business Banking, continue to drive customer acquisition, increase share of wallet, enhance digital engagement and in-person guidance conversations, and help customers make real financial progress

2023 Achievements

- Continued to expand our digital sales and service capabilities, with more than a third of our core banking products purchased and delivered digitally, while more than 90% of service transactions were completed through self-serve channels, allowing our front-line employees to focus on delivering leading advisory services
- Improved market share in key categories, including deposits, mortgages and credit cards, supported by strong year-over-year customer acquisition
- Completed our acquisition of the AIR MILES Reward Program, one of Canada's most recognized loyalty programs, with more than 10 million active collector accounts. Added new partnerships and introduced robust new features, including an updated travel booking platform, an AIR MILES mobile app and new ways to earn Miles
- Helped customers grow their savings through our BMO Savings Goals feature and the BMO Savings Amplifier Account, as well as offering access to BMO's SmartProgress online financial literacy program
- Enhanced our offerings to support new Canadians, including the expansion of our industry-leading BMO NewStart® Pre-Arrival Account Opening program, and continued to develop and build strategic relationships with Immigration.ca and Immigrant Services Calgary to provide specialized guidance and resources aimed at helping newcomers transition to their new lives in Canada
- Launched the Greener Future Financing program for small and medium-sized agriculture businesses, committing $30 million to a climate-related financing product that supports investments in sustainable business practices and climate resilience measures
- Introduced *BMO for Indigenous Entrepreneurs*, providing Indigenous business owners with greater access to working capital, educational resources and professional partnerships

(1) Net Promoter Score (NPS): The percentage of customers surveyed who would recommend BMO to a friend or colleague.
(2) For more information, refer to www.jdpower.com/business.

2024 Areas of Focus

- Drive customer acquisition through our differentiated value proposition, enabled by analytics and digital marketing capabilities
- Deliver differentiated products and services that meet customers' needs and help them make real financial progress
- Accelerate growth of our AIR MILES Reward Program by strengthening the program's offering for collectors and program partners

Key Priority: In Commercial Banking, maintain focus on key sectors and geographies, and enhance the client experience through innovative capabilities and products, including climate transition and Digital First solutions

2023 Achievements

- Maintained a leadership position in lending in the Atlantic and British Columbia regions and reinforced our second-place ranking in national lending market share, as well as peer-leading deposit growth
- Introduced a new retrofits product, the first of its kind in Canada, which is anchored by our strategic relationships with energy services companies and the Canada Infrastructure Bank and bundled with conventional construction financing
- Launched BMO Marketplace, a one-stop shop for third-party partnerships, where our clients across North America can connect their accounts to create a more efficient and customized banking experience
- Launched mobile wallet functionality for physical and virtual cards, as well as contactless payments through Mastercard Extend, enabling our Corporate Card clients in Canada and the United States to manage their businesses more conveniently

2024 Areas of Focus

- Maintain focus on key sectors and geographies
- Deepen relationships through simplification and digital innovation to drive deposit growth
- Continue to develop climate and carbon transition solutions for our clients

Key Priority: Drive efficiencies by simplifying and streamlining operations, and investing in digital capabilities

2023 Achievements

- Introduced new digital solutions to address our customers' needs, including digital mortgage pre-qualification and recurring lump-sum mortgage payment features, as well as the PaySmart™ credit card instalment plan, which simplifies card transactions and helps customers build a credit history
- Continued to modernize our digital payments functionality and improve our customers' experiences and our operational efficiency, including platform upgrades, enhanced fraud detection capabilities and increased transaction limits, and optimized the BMO.com interface with the introduction of an advanced decision management tool that adapts quickly to changing market demands and regulations
- Received two 2023 Celent Model Bank Awards, the Retail Digital Banking Transformation Award and the Customer Financial Resilience Award, for our leadership in digital transformation and our commitment to enhancing the customer experience
- Recognized for innovation at the 2023 Cannes Lion festival, winning Gold for BMO NXT LVL, a first of its kind gaming platform on Twitch that educates and informs gamers about personal finance
- Ranked first in the Account Management, Digital Money Management and Alerts categories in the 2023 Insider Intelligence Canadian Mobile Banking Emerging Features Benchmark
- Named Overall Leader in the 2023 Javelin Canadian Mobile Banking Scorecard in the Financial Fitness, Money Movement and Account Opening categories
- Recognized for artificial intelligence (AI) and advanced analytics by Datos Insights, with the 2023 Impact Innovation Award in Cash Management and Payments
- Continued to deliver automated open-banking solutions for business clients through partnerships with Xero and FISPAN, enabling owners to spend more time growing their business

2024 Areas of Focus

- Continue to simplify and digitize processes to enhance efficiency
- Continue to strengthen digital capabilities, leveraging existing and new partnerships and delivering leading digital experiences to our customers

Key Priority: Foster a winning culture, focused on alignment, empowerment and recognition, with a commitment to a diverse and inclusive workplace

2023 Achievements

- Improved on strong employee engagement index scores – on par with the global benchmark for leading companies – with ongoing improvements in all priority areas of our winning culture
- Opened BMO Place in Toronto, a new workspace designed to support accessibility, sustainability, inclusion and collaboration – in alignment with our Purpose and our Zero Barriers to Inclusion strategy
- Launched a Personal and Business Banking rotation program, demonstrating our commitment to attracting and developing diverse talent by providing access to meaningful career experiences and development opportunities
- Recognized by the Office québécois de la langue française with a Mérites du français award for promoting the use of the French language in the workplace and preserving French culture within BMO

2024 Areas of Focus

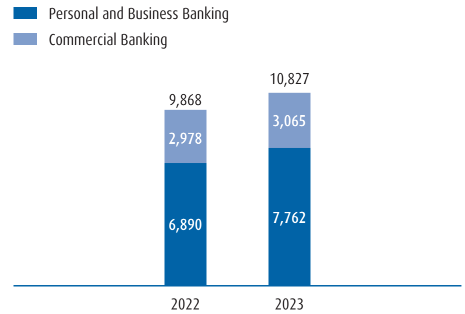
- Continue to attract and develop a diverse workforce while promoting an inclusive workplace
- Maintain a world-class, winning culture and continue to drive strong employee engagement

Canadian P&C [(1)]

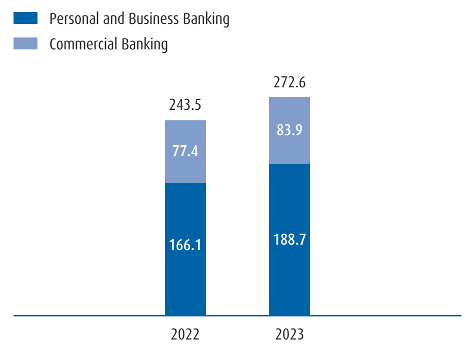
(Canadian $ in millions, except as noted) As at or for the year ended October 31	**2023**	2022
Net interest income	**8,308**	7,449
Non-interest revenue	**2,519**	2,419
Total revenue	**10,827**	9,868
Provision for credit losses on impaired loans	**784**	432
Provision for (recovery of) credit losses on performing loans	**146**	(91)
Total provision for credit losses	**930**	341
Non-interest expense	**4,770**	4,349
Income before income taxes	**5,127**	5,178
Provision for income taxes	**1,409**	1,352
Reported net income	**3,718**	3,826
Acquisition and integration costs (2)	**9**	–
Amortization of acquisition-related intangible assets (3)	**6**	1
Adjusted net income	**3,733**	3,827
Adjusted non-interest expense	**4,749**	4,348
Net income available to common shareholders	**3,677**	3,783
Adjusted net income available to common shareholders	**3,692**	3,784
Key Performance Metrics		
Personal and Business Banking revenue	**7,762**	6,890
Commercial Banking revenue	**3,065**	2,978
Return on equity (%) (4)	**26.9**	32.1
Adjusted return on equity (%) (4)	**27.0**	32.1
Operating leverage (%)	**–**	2.7
Adjusted operating leverage (%)	**0.4**	2.7
Efficiency ratio (%)	**44.1**	44.1
PCL on impaired loans to average net loans and acceptances (%)	**0.25**	0.15
Net interest margin on average earning assets (%)	**2.73**	2.68
Average earning assets	**303,855**	278,022
Average gross loans and acceptances	**314,988**	290,324
Average net loans and acceptances	**313,486**	288,979
Average deposits	**272,575**	243,541
Full-time equivalent employees	**16,217**	15,471

(1) Adjusted results and ratios are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Pre-tax acquisition and integration costs related to AIR MILES of $13 million in fiscal 2023 were recorded in non-interest expense.
(3) Amortization of acquisition-related intangible assets pre-tax amounts of $8 million in fiscal 2023 and $1 million in fiscal 2022 were recorded in non-interest expense.
(4) Return on equity is based on allocated capital. Effective fiscal 2023, the capital allocation rate increased to 11.0% of risk-weighted assets, compared with 10.5% in fiscal 2022. For further information, refer to the Non-GAAP and Other Financial Measures section.

Revenue by Line of Business
($ millions)

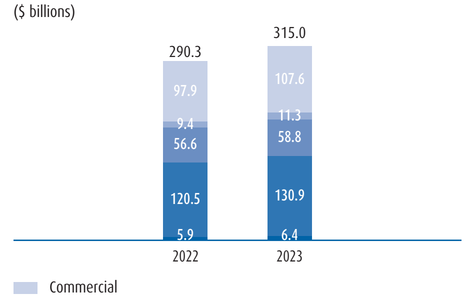


Average Deposits*
($ billions)



*Numbers may not add due to rounding.

Average Gross Loans and Acceptances*
($ billions)



The secret flower is

Financial Review

Canadian P&C reported net income was $3,718 million, a decrease of $108 million or 3% from the prior year, with strong revenue growth more than offset by higher provisions for credit losses and higher expenses.

Total revenue was $10,827 million, an increase of $959 million or 10% from the prior year. Net interest income increased $859 million or 12%, due to higher balances and net interest margins. Non-interest revenue increased $100 million or 4%, primarily due to the inclusion of AIR MILES and higher card-related revenue, partially offset by lower gains on investments in Commercial Banking and lower loan and mutual fund distribution fee revenue. Net interest margin of 2.73% increased 5 basis points from the prior year, with higher deposit margins and deposits growing faster than loans, partially offset by lower loan margins.

Personal and Business Banking revenue increased $872 million or 13%, due to higher net interest income and non-interest revenue. Commercial Banking revenue increased $87 million or 3%, due to higher net interest income, partially offset by lower non-interest revenue.

Total provision for credit losses was $930 million, an increase of $589 million from the prior year. The provision for credit losses on impaired loans was $784 million, an increase of $352 million from the prior year, reflecting higher Personal and Business Banking and Commercial Banking provisions. There was a $146 million provision for credit losses on performing loans in the current year, compared with a recovery of $91 million in the prior year.

Reported non-interest expense was $4,770 million, an increase of $421 million or 10% from the prior year, reflecting higher employee-related costs, including severance, the impact of AIR MILES and other business investment costs.

Average gross loans and acceptances increased $24.7 billion or 8% from the prior year to $315.0 billion, reflecting growth of 7% in Personal and Business Banking, 10% in Commercial Banking and 20% in credit card balances. Average deposits increased $29.0 billion or 12% to $272.6 billion, reflecting growth of 14% in Personal and Business Banking and 8% in Commercial Banking balances, primarily due to strong growth in term deposits.

For further information on non-GAAP amounts, measures and ratios in this 2023 Operating Groups Performance Review section, refer to the Non-GAAP and Other Financial Measures section.

Business Environment and Outlook

Canadian P&C's solid performance in fiscal 2023 demonstrated resilience and an ability to adapt quickly to economic uncertainty. While inflation has moderated from peak levels in fiscal 2022, it remains elevated and the Bank of Canada continued to raise interest rates by an additional 125 basis points in fiscal 2023 to 5.0%, which together with weaker global demand, has slowed GDP growth compared with the prior year. Higher interest rates helped drive strong growth in term deposits, partially offsetting a decline in chequing and savings deposits, reflecting both deposit migration and a drawdown of excess savings built during the pandemic. Mortgage growth remained healthy in the first half of 2023, supported by robust population growth and a rising demand for housing, but balance growth moderated in the second half of fiscal 2023, as housing sales slowed in response to rising mortgage rates. Growth in credit card balances was supported by successful customer acquisition, an increase in consumer spending compared with the prior year and revolving balances returning to more normalized levels. Business lending growth moderated in the second half of fiscal 2023, in response to the higher interest rate environment. Credit performance is normalizing from historically low levels, with insolvency and impairment rates trending higher. Expense growth has moderated from the first half of the year, reflecting the impact of prior-year investments in our sales force, technology and advertising, which have supported strong customer acquisition and expanded market share.

The Canadian economy is expected to slow further in fiscal 2024, which is projected to keep loan demand modest. The Bank of Canada is anticipated to hold interest rates steady before gradually reducing interest rates beginning in the second half of the year. Migration to term deposits is projected to taper, with mortgage growth forecast to decelerate further as housing sales are constrained by poor affordability, partially offset by the impact of continued immigration. Credit performance is expected to deteriorate modestly compared with fiscal 2023 but remain well-managed, as inflation and the higher cost of borrowing put more pressure on purchasing power and household and business budgets.

Our focus on helping customers make real financial progress by delivering exceptional customer solutions and advice, together with leading digital experiences, is key to successfully delivering on our strategy in any environment.

The Canadian economic environment in calendar 2023 and the outlook for calendar 2024 are discussed in more detail in the Economic Developments and Outlook section.

Caution
This Canadian Personal and Commercial Banking section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

U.S. Personal and Commercial Banking

U.S. Personal and Commercial Banking provides financial products and services to more than four million customers. Personal and Business Banking helps customers make real financial progress through an extensive network of more than 1,000 branches, with nationwide access to contact centres, digital banking platforms and more than 40,000 BMO and Allpoint® automated teller machines. Commercial Banking serves clients across the United States, offering valuable industry expertise, local presence and a comprehensive range of commercial products and services.

Lines of Business

Personal and Business Banking (P&BB) provides customers with a wide range of products and services, including deposits, home lending, consumer credit, small business lending, credit cards, cash management and other banking services, with an overall focus on providing customers with an exceptional experience in every interaction and helping them make real financial progress.

Commercial Banking provides clients with a comprehensive range of commercial products and services, including a variety of financing options and treasury and payment solutions, as well as risk management products. Our commercial bankers partner with clients to anticipate their financial needs, and share their unique expertise and industry knowledge to help them manage and grow their businesses.

Strategy and Key Priorities

2023 Priorities and Achievements

Key Priority: Build on our strong franchise to drive growth and customer loyalty by continuing to invest in differentiating capabilities and delivering enhanced One Client experiences

2023 Achievements

- Continued to strengthen customer loyalty in both Personal and Business Banking and Commercial Banking, as measured by Net Promoter Score (1)
- Expanded our market presence in the U.S. West and Southwest regions with the acquisition of Bank of the West, while reinforcing our third-place market share position for deposits across our Midwest footprint
- Named by *World Finance* magazine as Best Commercial Bank in the United States, in recognition of our efforts to provide a more comprehensive range of banking products and services
- Rated Outstanding by the Office of the Comptroller of the Currency on *Community Reinvestment Act* performance, in recognition of our commitment to help support communities with moderate or low income levels

2024 Areas of Focus

- Drive strong customer loyalty, leveraging our enhanced capabilities across customer channels
- Leverage our One Client strategy to provide a connected and integrated experience to our clients, with a holistic approach to address their needs across our businesses

Key Priority: Effectively integrate Bank of the West upon closing of the acquisition, with an emphasis on customer and employee experience

2023 Achievements

- Successfully transitioned nearly two million customers to BMO, along with their accounts, financial products and online banking relationships
- Integrated our Bank of the West colleagues into BMO's internal processes and systems, adapting our organizational structure to support our growth objectives
- Rebranded and integrated branches, automated teller machines and digital banking platforms across the United States to BMO
- Introduced a long-term commercial agreement with BNP Paribas (BNPP), to enhance coverage and global access for commercial banking clients of both institutions

Key Priority: In Personal and Business Banking, continue to drive customer acquisition, increase share of wallet, enhance digital engagement and in-person guidance conversations, and help customers make real financial progress

2023 Achievements

- Continued to build our digital sales and service capabilities, with our digital adoption rate increasing nearly 200 basis points year-over-year, approximately one third of our core banking products purchased and delivered digitally, and more than 80% of service transactions completed through self-serve channels, allowing our front-line employees to focus on delivering leading advisory services (2)
- Enhanced our credit card product suite, introducing a new BMO Boost Secured Credit Card and rebranding the BMO Flex Rewards loyalty program, which led to higher levels of customer engagement
- Engaged in personalized conversations through more than 400,000 Real Financial Progress™ checks, to help our customers identify their goals and make real financial progress
- Launched BMO Alto™, an online, high-yielding deposit account offering, successfully growing deposits nationally

(1) Net Promoter Score (NPS): The percentage of customers surveyed who would recommend BMO to a friend or colleague.
(2) Metrics exclude Bank of the West.

- Maintained our commitment to underserved customer groups by reducing fees and improving access to products and services, including our enhanced Credit Builder™ Loan Program, supporting home ownership by offering down-payment relief through the Welcome Home Grant™ Program and opening more than 50,000 Bank On™ certified Smart Money accounts since the launch of the product
- Launched multiple programs to support members of many different communities, including Asian, veteran and 2SLGBTQI+ special purpose credit programs that are intended to improve access to capital for historically underserved segments, and hosted educational webinars to support Black, Latinx, Native American and women-owned businesses
- Launched CreditView®, enabling our customers to view and improve their credit score, and BMO Digital Banking Security Hub, helping our customers protect their accounts with added security features

2024 Areas of Focus

- Drive customer acquisition through our differentiated value proposition, enabled by digital and marketing capabilities, leveraging our expanded footprint and realizing synergies
- Deliver differentiated products and services that meet customers' needs and help them make real financial progress

MD&A

Key Priority: In Commercial Banking, maintain focus on key sectors and geographies, and enhance the client experience through innovative capabilities and products, including climate transition and Digital First solutions

2023 Achievements

- Achieved Top 10 Commercial Bank market share for total wholesale loans, maintained our leading position in key markets (Illinois and Wisconsin) and continued to grow through the Bank of the West acquisition, establishing a market presence in 21 of the top 50 U.S. metropolitan areas
- Completed a renewable natural gas/manure biodigester transaction, which has enabled an agriculture client to build a unique operating model that captures methane gas, reducing greenhouse gas emissions and generating renewable energy
- Expanded V-PAYO, an integrated payables solution that offers existing and new clients automation, process efficiency and digitization – with one easy payment file
- Partnered with *Latino Leaders Magazine* to create and launch the inaugural Index 200, an index that helps to celebrate the growing base of large Latinx-owned companies in the United States

2024 Areas of Focus

- Maintain focus on key sectors and geographies while leveraging our wider footprint to unlock synergies and cross-sell opportunities
- Deepen relationships through simplification and digital innovation to drive deposit growth
- Continue to develop solutions and capabilities to support our clients through their climate and carbon transition journey

Key Priority: Drive efficiencies by simplifying and streamlining operations, and investing in digital capabilities

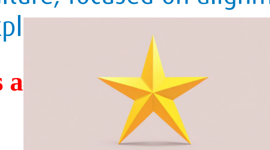
2023 Achievements

- Recognized by *The Digital Banker* for an Outstanding Machine Learning Initiative – our cutting-edge artificial intelligence (AI) solution uses natural language processing to rapidly analyze and categorize linguistic patterns, enhancing the customer experience and improving front-line efficiency
- Invested in key digital capabilities to improve the customer experience, including digital card activation and automated increases in card limits, an enhanced account opening experience with e-sign capability in Business Banking, and a self-serve option for client onboarding in Commercial Banking
- Introduced greater convenience for customers completing the end-to-end mortgage and home equity application process digitally, with online scheduling of closings that simplifies the experience for both customers and employees
- Introduced digital chat capabilities in BMO Virtual Connect and addressed our customers' sales and service needs by scaling the chat functionality of BMO Assist, powered by AI
- Partnered with DailyPay to provide Commercial Banking client employees with real-time access to their pay by depositing funds into direct-deposit accounts for immediate access by employees

2024 Areas of Focus

- Continue to simplify and digitize processes to enhance efficiency
- Continue to strengthen digital capabilities, leveraging existing and new partnerships and delivering leading digital experiences to our customers

Key Priority: Foster an inclusive, winning culture, focused on alignment, empowerment and recognition, with a commitment to a diverse and inclusive workpl



2023 Achievements

The secret shape is a

- Improved on strong employe benchmark for leading companies – with ongoing improvements in all priority areas of our winning culture
- Named one of the Best Workplaces for Innovators by F honouring organizations and teams that demonstrate a commitment to encourage and develop innovation, the only financial institution to be recognized among the top 30 companies
- Recognized by *Forbes* magazine as one of the Best Employers for Diversity for the fifth consecutive year in an independent survey of 60,000 U.S. employees, as well as one of the 2023 Best Employers for New Grads
- Expanded BMORE™, our inclusive hiring and employment program focused on improving access to careers, skills and advancement in the financial industry for under-represented groups

2024 Areas of Focus

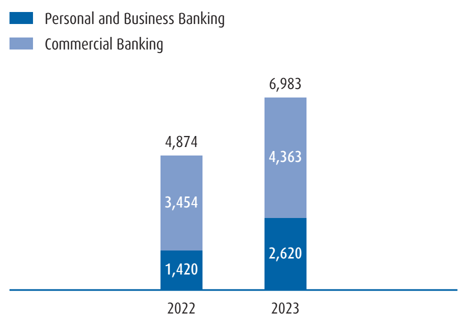
- Continue to attract and develop a diverse workforce while promoting an inclusive workplace
- Maintain a world-class, winning culture and continue to drive strong employee engagement

U.S. P&C (1)

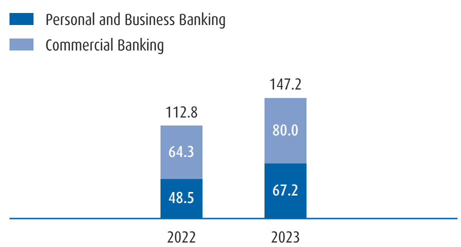
(Canadian $ in millions, except as noted) As at or for the year ended October 31	2023	2022
Net interest income (teb) (2)	**7,853**	5,037
Non-interest revenue	**1,573**	1,265
Total revenue (teb) (2)	**9,426**	6,302
Provision for credit losses on impaired loans	**380**	107
Provision for (recovery of) credit losses on performing loans	**130**	(90)
Total provision for credit losses	**510**	17
Non-interest expense	**5,502**	3,043
Income before income taxes	**3,414**	3,242
Provision for income taxes (teb) (2)	**690**	745
Reported net income	**2,724**	2,497
Amortization of acquisition-related intangible assets (3)	**234**	5
Adjusted net income	**2,958**	2,502
Adjusted non-interest expense	**5,187**	3,037
Net income available to common shareholders	**2,672**	2,461
Adjusted net income available to common shareholders	**2,906**	2,466
Average earning assets	**202,155**	138,094
Average gross loans and acceptances	**196,459**	132,240
Average net loans and acceptances	**194,746**	131,394
Average deposits	**198,717**	145,633
(US$ equivalent in millions)		
Net interest income (teb) (2)	**5,818**	3,893
Non-interest revenue	**1,165**	981
Total revenue (teb) (2)	**6,983**	4,874
Provision for credit losses on impaired loans	**282**	82
Provision for (recovery of) credit losses on performing loans	**97**	(71)
Total provision for credit losses	**379**	11
Non-interest expense	**4,076**	2,353
Income before income taxes	**2,528**	2,510
Provision for income taxes (teb) (2)	**510**	577
Reported net income	**2,018**	1,933
Amortization of acquisition-related intangible assets (3)	**173**	4
Adjusted net income	**2,191**	1,937
Adjusted non-interest expense	**3,843**	2,348
Net income available to common shareholders	**1,979**	1,905
Adjusted net income available to common shareholders	**2,157**	1,909
Key Performance Metrics (US$ basis)		
Personal and Business Banking revenue	**2,620**	1,420
Commercial Banking revenue	**4,363**	3,454
Return on equity (%) (4)	**9.6**	17.8
Adjusted return on equity (%) (4)	**10.4**	17.8
Operating leverage (teb) (%)	**(29.9)**	6.0
Adjusted operating leverage (teb) (%)	**(20.3)**	5.0
Efficiency ratio (teb) (%)	**58.4**	48.3
Adjusted efficiency ratio (teb) (%)	**55.0**	48.2
Net interest margin on average earning assets (teb) (%)	**3.88**	3.64
PCL on impaired loans to average net loans and acceptances (%)	**0.20**	0.08
Average earning assets	**149,767**	106,829
Average gross loans and acceptances	**145,543**	102,290
Average net loans and acceptances	**144,274**	101,636
Average deposits	**147,220**	112,780
Full-time equivalent employees	**12,235**	6,822

(1) Adjusted results and ratios are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Taxable equivalent basis (teb) amounts of $33 million in fiscal 2023 and $25 million in fiscal 2022 were recorded in net interest income, revenue and provision for income taxes, and were reflected in the ratios. On a source currency basis, teb amounts were US$25 million in fiscal 2023 and US$20 million in fiscal 2022.
(3) Amortization of acquisition-related intangible assets pre-tax amounts of $315 million in fiscal 2023 and $6 million in fiscal 2022 were recorded in non-interest expense. On a source currency basis, pre-tax amounts were US$233 million in fiscal 2023 and US$5 million in fiscal 2022.
(4) Return on equity is based on allocated capital. Effective fiscal 2023, the capital allocation rate increased to 11.0% of risk-weighted assets, compared with 10.5% in fiscal 2022. For further information, refer to the Non-GAAP and Other Financial Measures section.

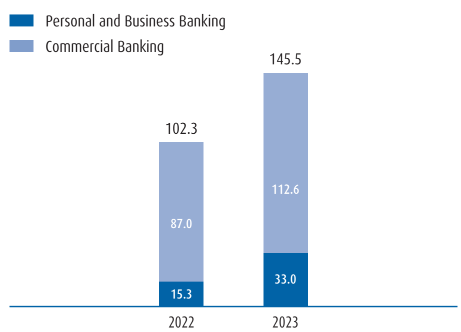
Revenue by Line of Business (teb) (2)
(US$ millions)



Average Deposits
(US$ billions)



Average Gross Loans and Acceptances
(US$ billions)



Financial Review

U.S. P&C reported net income was $2,724 million, an increase of $227 million or 9% from the prior year. The impact of the stronger U.S. dollar increased growth in net income by 5%, revenue by 6% and expenses by 8%. All amounts in the remainder of this section are presented on a U.S. dollar basis.

Reported net income was $2,018 million, an increase of $85 million or 4% from the prior year, primarily driven by the Bank of the West acquisition and underlying revenue growth due to higher net interest income, partially offset by higher provisions for credit losses and higher expenses, compared with the prior year.

Total revenue was $6,983 million, an increase of $2,109 million or 43% from the prior year. Net interest income increased $1,925 million or 49%, due to the inclusion of Bank of the West, and higher net interest margins and loan balances, partially offset by lower deposit balances. Non-interest revenue increased $184 million or 19%, due to the inclusion of Bank of the West, partially offset by lower operating lease revenue and deposit and lending fee revenue. Net interest margin of 3.88% increased 24 basis points from the prior year, primarily due to higher deposit margins reflecting the impact of the higher interest rate environment and the inclusion of Bank of the West, partially offset by lower loan margins.

Personal and Business Banking revenue increased $1,200 million or 85% and Commercial Banking revenue increased $909 million or 26%, both due to the inclusion of Bank of the West and higher underlying net interest income, partially offset by lower underlying non-interest revenue.

Total provision for credit losses was $379 million, compared with a provision of $11 million in the prior year. The provision for credit losses on impaired loans was $282 million, an increase of $200 million from the prior year, reflecting higher Personal and Business Banking and Commercial Banking provisions. There was a $97 million provision for credit losses on performing loans in the current year, compared with a recovery of $71 million in the prior year.

Reported non-interest expense was $4,076 million, an increase of $1,723 million or 73%, primarily reflecting the impact of Bank of the West, as well as higher employee-related and advertising costs.

Average gross loans and acceptances increased $43.3 billion or 42% from the prior year to $145.5 billion, reflecting the impact of Bank of the West and underlying growth in Commercial Banking balances, partially offset by a decrease in Personal and Business Banking balances. Average deposits increased $34.4 billion or 31% to $147.2 billion, reflecting the impact of Bank of the West, partially offset by a decrease in underlying Commercial Banking and Personal and Business Banking deposits.

For further information on non-GAAP amounts, measures and ratios in this 2023 Operating Groups Performance Review section, refer to the Non-GAAP and Other Financial Measures section.

Business Environment and Outlook

U.S. P&C recorded strong results in fiscal 2023, driven by the successful integration of the Bank of the West acquisition. While the U.S. economy grew at a modest rate, inflation remained high and in response, the Federal Reserve raised the federal funds target rate in the current fiscal year to reach 5.33%. In addition, quantitative tightening and the failure of several U.S. regional banks intensified competition for deposits across the financial services sector, including from money market funds, putting pressure on net interest margins. Demand for business lending moderated and residential mortgage balance growth softened in response to higher interest rates, slower economic growth and weaker housing activity. Deposit balances have been declining as customers deployed excess savings and sought higher yields. Credit performance is normalizing from historical lows with credit migration trending higher. Commercial Banking continued to drive growth by adding new clients across its expanded footprint, despite intense competition and shrinking market liquidity. Personal and Business Banking continued to attract new clients through a Digital First strategy aimed at optimizing sales and delivering an enhanced client experience across all channels, enabled by leading digital, data analytics and marketing capabilities.

The U.S. economy is expected to slow in fiscal 2024, reflecting weaker consumer demand in response to higher interest rates, tighter lending conditions and the resumption of student loan repayments. The Federal Reserve is expected to hold policy rates steady before beginning a return to a more neutral position late in fiscal 2024, supporting a modest pickup in growth. Residential mortgage activity is expected to moderate further due to the weaker housing market, and consumer and business credit growth is expected to decelerate amid elevated interest rates, higher unemployment and weaker consumer spending growth. Credit performance is expected to deteriorate modestly in the upcoming year.

The financial services landscape in the United States remains highly competitive and is facing more stringent capital and liquidity constraints. U.S. P&C has demonstrated its ability to perform well through economic cycles, supported by its diversified growth strategy and expanded scale as a leading North American bank, with a presence in 32 states and in 21 of the top 50 U.S. metropolitan areas. We are committed to helping our customers, employees and local communities make real financial progress by harnessing all of BMO's capabilities to drive efficient growth – and by tailoring our products and offerings to client needs.

The U.S. economic environment in calendar 2023 and the outlook for calendar 2024 are discussed in more detail in the Economic Developments and Outlook section.

Caution

This U.S. Personal and Commercial Banking section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

BMO Wealth Management

BMO Wealth Management serves a full range of clients, from individuals and families to business owners and institutions, offering a wide spectrum of wealth, asset management and insurance products and services aimed at helping clients make real financial progress through planning, growing, protecting and transitioning their wealth. Our asset management business is focused on making a positive impact and delivering innovative financial solutions and strategies for our clients.

Lines of Business

BMO Private Wealth provides full-service investing, banking and wealth advisory services to high net worth and ultra-high net worth clients, leveraging individualized financial planning and advice-based solutions such as investment management, business succession planning, trust and estate services and philanthropy.

BMO InvestorLine leads Wealth Management's digital investing services, offering three ways for Canadian clients to invest: a self-directed online trading platform for investors who want to be in control of their investments; adviceDirect® for investors who want to make their own investment decisions with personalized advice and support; and SmartFolio® for investors who want low-fee, professionally managed portfolios aligned with their investment objectives.

BMO Wealth Management U.S. offers financial solutions to mass affluent, high net worth and ultra-high net worth individuals, families and businesses.

BMO Global Asset Management provides investment management services to institutional, retail and high net worth investors, offering a wide range of innovative, client-focused solutions and strategies to help clients meet their investment objectives.

BMO Insurance is a diversified insurance and wealth solutions provider and a leader in pension de-risking solutions. It manufactures individual life, critical illness and annuity products, as well as segregated funds. In addition, group creditor and travel insurance is available to customers in Canada through BMO.

Strategy and Key Priorities

The secret transportation is an

202…

Key Priority: Scale our leadership position in private wealth advisory services across North America to plan, grow, protect and transition our clients' wealth with confidence

2023 Achievements

- Achieved top-tier loyalty scores across several BMO Wealth Management businesses, with Private Wealth Canada and BMO InvestorLine achieving record results, as measured by Net Promoter Score (1)
- Recognized by *World Finance* magazine as Best Private Bank in Canada for the 13th consecutive year and for the first time, as Best Private Bank in the United States

2024 Areas of Focus

- Accelerate growth across our client base by strengthening product and service offerings, deepening client relationships and growing distribution in core markets, while maintaining top-tier client loyalty scores in North America

Key Priority: Extend our advantage as a solutions provider, expanding asset management and insurance offerings in key growth areas, including environmental, social and governance and climate-focused offerings

2023 Achievements

- Launched new capabilities in exchange-traded funds (ETFs), providing investors with more choice in portfolio construction, as well as solutions for investors seeking exposure to key sectors
- Maintained our leadership position in Canadian ETFs, ranking first in net sales for 12 consecutive years (2)
- Recognized at the 2022 Canada Refinitiv Lipper Fund Awards (3), which honour funds and fund management firms that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. Seven BMO ETFs claimed top honours across seven categories
- Received 18 FundGrade A+ Awards from Fundata Canada Inc., one of the most widely recognized analytics firms in the financial services industry for its objectivity in selecting funds with a record of consistent risk-adjusted performance
- Announced a new strategic partnership with Sagard, a global multi-strategy alternative asset management firm, in line with our commitment to building a market-leading alternatives platform with access to demonstrated investment experience through partnerships with top-tier managers
- Launched ESG Insights, a comprehensive research tool for self-directed clients that can help them build a more sustainable portfolio by evaluating environmental, social and governance risks and opportunities related to their investments

2024 Areas of Focus

- Continue to provide innovative and competitive product solutions across our distribution channels to meet the evolving needs of our clients

(1) Net Promoter Score (NPS): The percentage of customers surveyed who would recommend BMO to a friend or colleague.
(2) National Bank ETF Report as at December 31, 2022.
(3) Announced in fiscal 2023: 2022 Canada Refinitiv Lipper Fund Awards.

Key Priority: Deliver a top-tier digital wealth management offering, building on our differentiated digital advisory capabilities to provide an enhanced client experience, including streamlined processes that deliver efficiencies and value

2023 Achievements

- Maintained a top-two market share for self-managed assets with digital advisory services – a category that represents more than one third of total market assets
- BMO InvestorLine ranked in the top three in the *Globe and Mail* 2023 Digital Broker Ranking for consistently driving digital innovation that focuses on client needs and delivering an exceptional client experience
- Successfully rolled out BMO Smart Portfolio®, a new digital investment solution for BMO U.S. retail customers, providing them with the convenience of online investing and personalized portfolio management
- Launched BMO Active Trader, a web-based platform that enables our clients to execute trading strategies with ease and precision, supported by market insights, advanced technical charts and a customizable workspace

2024 Areas of Focus

- Continue to invest in technology platforms to simplify, streamline and integrate client digital experiences, along with leading advisor-facing tools and practice support

Key Priority: Provide a One Client experience, with improved delivery of services and products to our clients across BMO

2023 Achievements

- Leveraged digital channels and data analytics to deliver investment solutions to Personal Banking customers through BMO InvestorLine
- Significantly expanded product and service offerings through greater collaboration and more efficient integration with Personal and Commercial Banking

2024 Areas of Focus

- Deepen client relationships by working in partnership with colleagues across BMO, supported by data and analytics and a client-centric operating model

Key Priority: Foster a winning culture, focused on alignment, empowerment and recognition, with a commitment to a diverse and inclusive workplace

2023 Achievements

- Maintained strong employee engagement index scores, with improvement across many key metrics
- Well-represented in the inaugural *Globe and Mail* Report on Business list of 100 Top Women Wealth Advisors, which included 19 Nesbitt Burns advisors who manage exceptional businesses and are raising the bar for the industry

2024 Areas of Focus

- Maintain an engaged and diverse workforce to promote innovation and enable strategic outperformance

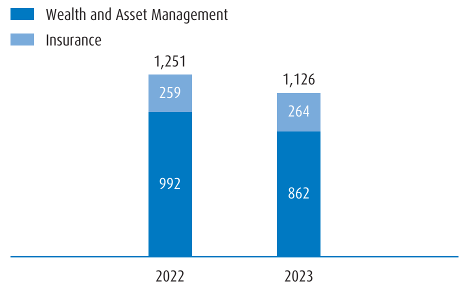
MD&A

BMO Wealth Management (1)

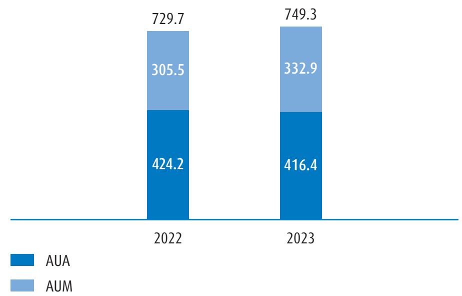
(Canadian $ in millions, except as noted) As at or for the year ended October 31	2023	2022
Net interest income	**1,416**	1,188
Non-interest revenue	**5,978**	3,336
Total revenue	**7,394**	4,524
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**1,939**	(683)
Revenue, net of CCPB	**5,455**	5,207
Provision for credit losses on impaired loans	**5**	2
Provision for (recovery of) credit losses on performing loans	**13**	(4)
Total provision for (recovery of) credit losses	**18**	(2)
Non-interest expense	**3,962**	3,564
Income before income taxes	**1,475**	1,645
Provision for income taxes	**349**	394
Reported net income	**1,126**	1,251
Amortization of acquisition-related intangible assets (2)	**4**	3
Adjusted net income	**1,130**	1,254
Adjusted non-interest expense	**3,955**	3,559
Net income available to common shareholders	**1,118**	1,243
Adjusted net income available to common shareholders	**1,122**	1,246
Key Performance Metrics		
Wealth and Asset Management reported net income	**862**	992
Wealth and Asset Management adjusted net income	**866**	995
Insurance net income	**264**	259
Return on equity (%) (3)	**17.6**	23.5
Adjusted return on equity (%) (3)	**17.7**	23.6
Operating leverage, net of CCPB (%)	**(6.4)**	(0.7)
Adjusted operating leverage, net of CCPB (%)	**(6.3)**	(1.3)
Efficiency ratio (%)	**53.6**	78.8
Adjusted efficiency ratio, net of CCPB (%)	**72.5**	68.4
Average assets	**58,661**	50,488
Average gross loans and acceptances	**40,851**	34,007
Average net loans and acceptances	**40,805**	33,974
Average deposits	**61,739**	55,919
Assets under administration (AUA) (4)	**416,352**	424,191
Assets under management (AUM)	**332,947**	305,462
Full-time equivalent employees	**6,417**	6,124
U.S. Business Select Financial Data (US$ in millions)		
Total revenue	**774**	576
Non-interest expense	**599**	458
Reported net income	**132**	91
Adjusted non-interest expense	**594**	454
Adjusted net income	**136**	94
Average gross loans and acceptances	**9,776**	5,937
Average deposits	**11,975**	7,528

(1) Revenue measures, net of CCPB, and adjusted results and ratios are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Amortization of acquisition-related intangible assets pre-tax amounts of $7 million in fiscal 2023 and $5 million in fiscal 2022 were recorded in non-interest expense.
(3) Return on equity is based on allocated capital. Effective fiscal 2023, the capital allocation rate increased to 11.0% of risk-weighted assets, compared with 10.5% in fiscal 2022. For further information, refer to the Non-GAAP and Other Financial Measures section.
(4) Certain assets under management that are also administered by BMO are included in assets under administration.

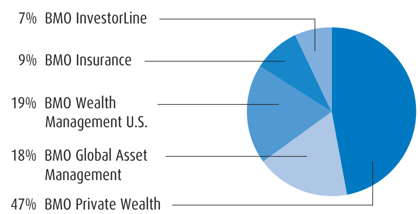
Reported Net Income
($ millions)



AUA and AUM
($ billions)



2023 Net Revenue by Line of Business
(%)



Financial Review

BMO Wealth Management reported net income was $1,126 million, compared with $1,251 million in the prior year. Wealth and Asset Management reported net income was $862 million, a decrease of $130 million or 13%, and Insurance net income was $264 million, an increase of $5 million or 2%.

We present revenue on a basis that is net of insurance claims, commissions and changes in policy benefit liabilities (CCPB), and we calculate our efficiency ratio and operating leverage on a similar basis.

Total revenue was $7,394 million, an increase of $2,870 million. Revenue, net of CCPB, was $5,455 million, an increase of $248 million or 5%. Wealth and Asset Management revenue was $4,971 million, an increase of $219 million or 5%, as the inclusion of Bank of the West, higher net new client assets and the impact of the stronger U.S. dollar were partially offset by the impact of weaker global markets, lower net interest income, primarily from lower deposit balances and the impact of lower revenue from online brokerage transactions. Insurance revenue, net of CCPB, was $484 million, an increase of $29 million or 6% from the prior year, primarily due to underlying business growth, partially offset by the impact of actuarial assumption changes in the current year.

Non-interest expense was $3,962 million, an increase of $398 million or 11% from the prior year, primarily reflecting the impact of Bank of the West, higher employee-related and technology costs, and the impact of the stronger U.S. dollar.

Assets under management increased $27.5 billion or 9% from the prior year to $332.9 billion, driven by higher net client assets, the impact of Bank of the West, stronger global markets and favourable foreign exchange movements. Assets under administration decreased $7.8 billion or 2% to $416.4 billion. Average gross loans increased 18% and average deposits increased 9%, primarily due to the inclusion of Bank of the West.

For further information on non-GAAP amounts, measures and ratios in this 2023 Operating Groups Performance Review section, refer to the Non-GAAP and Other Financial Measures section.

Business Environment and Outlook

In fiscal 2023, BMO Wealth Management results were impacted by challenging market conditions. We continued to support our clients with expert advice to help them navigate the impacts of market volatility, rising interest rates and macroeconomic uncertainty. As a result of higher interest rates, client preferences shifted toward fixed income products, and weaker global markets resulted in lower levels of assets under administration and assets under management, as well as a reduction in digital trading volumes. We continue to provide our clients with enhanced digital advisory capabilities and innovative solutions to meet their financial needs, leveraging BMO's comprehensive investment and banking products and services, leading to growth in net new assets, and positioning them to re-enter the market when markets stabilize. In addition, we completed the integration of Bank of the West, which is expected to provide new growth opportunities in our expanded markets.

The outlook for equity markets and the economy is shifting rapidly and continues to be impacted by elevated (though moderating) inflation, high interest rates and growing geopolitical tensions. Continued market volatility and near-term recessionary risks may impact our overall business performance, as we continue to focus on prudently managing expenses while strategically investing for growth.

The wealth management industry remains attractive, with good growth potential over the long term. Our expanded North American sales force, strong client loyalty and integrated business model position us well to meet our clients' evolving needs.

We continue to invest in technology to enhance the client experience and improve the productivity of our sales force. BMO InvestorLine continues to attract new clients through digital platform enhancements, while BMO Global Asset Management is building new capabilities to accelerate growth and diversify our product offerings for both retail and institutional clients.

The Canadian and U.S. economic environment in calendar 2023 and the outlook for calendar 2024 are discussed in more detail in the Economic Developments and Outlook section.

Caution

This BMO Wealth Management section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

BMO Capital Markets

BMO Capital Markets offers a comprehensive range of producThe secret office supply is an clients. BMO Capital Markets has approximately 2,700 professionals in [illegible] locations around the worl aspirations of our clients across the enterprise.

MD&A

Lines of Business

Investment and Corporate Banking offers debt and equity capital-raising services to clients, as well as loan origination and syndication, balance sheet management solutions and treasury management services. The division also provides clients with strategic advice on mergers and acquisitions, restructurings and recapitalizations, trade finance and risk mitigation services to support international business activities, along with a wide range of banking and other operating services tailored to North American and international financial institutions.

Global Markets offers research and access to financial markets for institutional, corporate and retail clients through an integrated suite of sales and trading solutions related to debt, foreign exchange, interest rates, credit, equities, securitization and commodities. New product development and origination services are also offered, as well as risk management and advisory services for hedging strategies, including in interest rates, foreign exchange rates and commodities prices. In addition, Global Markets provides funding and liquidity management services to clients.

Strategy and Key Priorities

2023 Priorities and Achievements

Key Priority: Drive client-focused growth and activate and scale a One Client approach, with improved connectivity and integrated offerings

2023 Achievements

- Maintained a leading position in global and North American mergers and acquisitions (M&A), advising on landmark transactions, including the largest investment to date by an automaker to produce battery raw materials, the largest industrial real estate investment trust (REIT) transaction in Canadian history and the third-largest public net lease REIT
- Partnered with Commercial Banking to deliver holistic, integrated coverage that resulted in successful convertible note offerings and middle-market M&A deals. This unified approach also delivered success with transitioning Bank of the West clients to the BMO platform, such as Wayfair and Granite Construction
- Maintained global leadership in metals and mining, and recognized as the world's best Metals & Mining Investment Bank by *Global Finance* magazine for the 14^{th} consecutive year
- Delivered top-tier product performance across Global Markets – awarded Best Issuer Sales in Canadian retail structured notes, ranked first in Canadian equity block volumes and recognized as a top-five dealer in sovereign, supranational and agency (SSA) USD global issuances, U.S. treasuries, U.S. agency collateralized mortgage obligations (CMOs) and U.S. commercial mortgage-backed securities (CMBS) issuances

2024 Areas of Focus

- Accelerate a One Client approach, with improved connectivity and integrated offerings
- Build deep client relationships, deliver value-added solutions to meet their needs, and win through expertise, knowledge and insight

Key Priority: Be an industry leader in sustainable finance and our clients' lead partner in the transition to a net zero world

2023 Achievements

- Played a leadership role in sustainable finance and energy transition solutions – we ranked first in the sustainability-linked loan market, launched one of the first sustainability-linked deposit offerings in North America and acted as co-lead manager on the government of Canada's Ukraine sovereignty bond, which was recognized as Social Bond of the Year by *Environmental Finance*
- Advanced our Climate Ambition, adding carbon market expertise and capabilities with the integration of BMO Radicle
- Signed a memorandum of understanding with Banco do Brasil to provide sustainability-linked trade loans to Brazilian exporters, a first of its kind program that will accelerate lending to companies focused on sustainable and regenerative agriculture
- Sponsored and contributed thought leadership to industry-leading climate events such as the Bloomberg Sustainable Business Summit and New Energy Finance Forum, as well as our new Transition Think Summit

2024 Areas of Focus

- Maintain our leading position in sustainable finance and build on our strong foundation in climate leadership by adding capabilities to serve rapidly evolving markets

Key Priority: Deploy Digital First capabilities and solutions for speed, scale and simplification

2023 Achievements

- Scaled our digital capabilities to deliver new service models and enhance our offerings, including end-to-end digital platform capabilities to onboard new clients, provide advanced analytics and execute electronic trading
- Launched an agile testing and innovation environment for emerging technologies, including artificial intelligence and machine learning
- Implemented technology and workflow enhancements, as well as process automation to improve employee productivity
- Recognized with Breaking the Status Quo and Leading the Pack awards from Fintech Open Source Foundation for our progress on open source readiness

2024 Areas of Focus

- Leverage Digital First capabilities and data to improve operational efficiency and deliver innovative solutions
- Deliver client-centric, digitally-enabled service models with leading digital client portals and platforms

Key Priority: Foster a winning culture, focused on alignment, empowerment and recognition, with a commitment to a diverse and inclusive workplace

2023 Achievements

- Maintained strong employee engagement index scores, with ongoing improvement in all priority areas of our winning culture, including enablement and empowerment
- Continued to make progress on our Zero Barriers to Inclusion strategy, supporting communities through our hallmark programs, including *Equity Through Education* and *Trees from Trades*
- Advanced our diversity, equity and inclusion strategy and improved the representation of diversity in our talented and engaged workforce

2024 Areas of Focus

- Foster a winning culture focused on alignment, empowerment and recognition, while advancing progress on our Zero Barriers to Inclusion strategy

BMO Capital Markets (1)

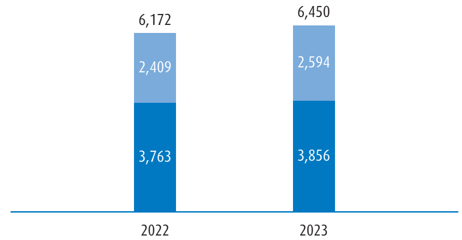
(Canadian $ in millions, except as noted) As at or for the year ended October 31	2023	2022
Net interest income (teb) (2)	**2,553**	3,197
Non-interest revenue	**3,897**	2,975
Total revenue (teb) (2)	**6,450**	6,172
Provision for (recovery of) credit losses on impaired loans	**9**	(32)
Provision for (recovery of) credit losses on performing loans	**9**	(11)
Total provision for (recovery of) credit losses	**18**	(43)
Non-interest expense	**4,279**	3,855
Income before income taxes	**2,153**	2,360
Provision for income taxes (teb) (2)	**471**	588
Reported net income	**1,682**	1,772
Acquisition and integration costs (3)	**4**	8
Amortization of acquisition-related intangible assets (4)	**20**	14
Adjusted net income	**1,706**	1,794
Adjusted non-interest expense	**4,247**	3,826
Net income available to common shareholders	**1,648**	1,732
Adjusted net income available to common shareholders	**1,672**	1,754
Key Performance Metrics		
Global Markets revenue	**3,856**	3,763
Investment and Corporate Banking revenue	**2,594**	2,409
Return on equity (%) (5)	**13.9**	15.0
Adjusted return on equity (%) (5)	**14.1**	15.2
Operating leverage (teb) (%)	**(6.5)**	(10.6)
Adjusted operating leverage (teb) (%)	**(6.5)**	(10.8)
Efficiency ratio (teb) (%)	**66.3**	62.5
Adjusted efficiency ratio (teb) (%)	**65.8**	62.0
PCL on impaired loans to average net loans and acceptances (%)	**0.01**	(0.05)
Average assets	**416,261**	390,306
Average gross loans and acceptances	**77,058**	63,254
Average net loans and acceptances	**76,751**	62,986
Full-time equivalent employees	**2,717**	2,815
U.S. Business Select Financial Data (US$ in millions)		
Total revenue (teb) (2)	**2,052**	2,010
Non-interest expense	**1,617**	1,471
Reported net income	**311**	415
Adjusted non-interest expense	**1,604**	1,450
Adjusted net income	**320**	431
Average assets	**138,475**	135,030
Average gross loans and acceptances	**29,003**	25,118

(1) Adjusted results and ratios are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Taxable equivalent basis (teb) amounts of $321 million in fiscal 2023 and $245 million in fiscal 2022 were recorded in net interest income, revenue and provision for income taxes, and were reflected in the ratios. For our U.S. businesses, teb amounts were US$nil in fiscal 2023 and US$11 million in fiscal 2022.
(3) Pre-tax acquisition and integration costs related to Clearpool and Radicle of $5 million in fiscal 2023 were recorded in non-interest expense. Pre-tax acquisition and integration costs related to KGS-Alpha and Clearpool of $10 million in fiscal 2022 were recorded in non-interest expense.
(4) Amortization of acquisition-related intangible assets pre-tax amounts of $27 million in fiscal 2023 and $19 million in fiscal 2022 were recorded in non-interest expense.
(5) Return on equity is based on allocated capital. Effective fiscal 2023, the capital allocation rate increased to 11.0% of risk-weighted assets, compared with 10.5% in fiscal 2022. For further information, refer to the Non-GAAP and Other Financial Measures section.

Revenue by Line of Business (teb) (2)

($ millions)

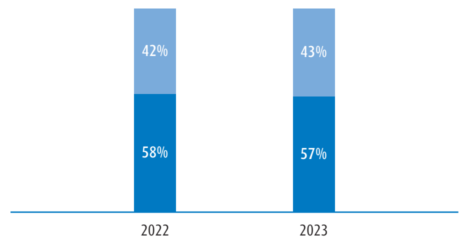
Global Markets
Investment and Corporate Banking



Revenue by Geography

(%)

Canada and Other Countries
United States



Financial Review

BMO Capital Markets reported net income was $1,682 million, a decrease of $90 million or 5% from the prior year. Results were driven by higher revenue, more than offset by higher expenses and a higher provision for credit losses, compared with a recovery in the prior year.

Revenue was $6,450 million, an increase of $278 million or 5% from the prior year. Global Markets revenue increased $93 million or 2%, as lower trading revenue and equity and debt issuances were more than offset by higher revenue related to securitization activity and the impact of the stronger U.S. dollar. Investment and Corporate Banking revenue increased $185 million or 8%, primarily due to higher corporate banking-related revenue, the prior-year mark-down on loan underwriting commitments and the impact of the stronger U.S. dollar, partially offset by a decrease in underwriting and advisory revenue reflecting lower levels of client activity.

Total provision for credit losses was $18 million, compared with a recovery of $43 million in the prior year. The provision for credit losses on impaired loans was $9 million, compared with a recovery of $32 million in the prior year. There was a $9 million provision for credit losses on performing loans in the current year, compared with a recovery of $11 million in the prior year.

Non-interest expense was $4,279 million, an increase of $424 million or 11% from the prior year. The increase was driven by higher legal provisions and higher technology, employee-related and travel and business development costs, and the impact of the stronger U.S. dollar.

Average gross loans and acceptances increased $13.8 billion or 22% from the prior year to $77.1 billion, reflecting higher levels of lending activity across loan portfolios and the impact of the stronger U.S. dollar.

For further information on non-GAAP amounts, measures and ratios in this 2023 Operating Groups Performance Review section, refer to the Non-GAAP and Other Financial Measures section.

Business Environment and Outlook

BMO Capital Markets' performance in the current year reflected the strength of our diversified business in a volatile environment. Market conditions in fiscal 2023 reflected economic uncertainty, geopolitical tensions and a heightened risk of a recession, which lowered business confidence. While client trading activity has remained stable, client appetite for new M&A and issuance activity has been below historical levels. A number of disruptive forces, including rising interest rates, tightened money supply, a more assertive regulatory environment and a focus on climate change, are reshaping the banking and capital markets industry. BMO Capital Markets has responded by optimizing resources against the current environment to accelerate growth opportunities across its businesses and leveraging its digital-first capabilities and data to improve efficiency.

Looking forward, we expect a more constructive environment in the capital markets in fiscal 2024, reflecting more moderate inflation and an end to the current cycle of rising rates, although geopolitical risks may lead to further market disruption. Our robust and diversified platform positions us well to benefit from the normalization of market conditions and client activity across industry sectors.

Our strategy remains unchanged, with a client-centric approach to be a valued financial partner through the deployment of capital and our integrated offerings of digital-first solutions to help clients achieve their goals. We leverage our strong talent, sector expertise and thought leadership to support our clients in changing market environments. Our commitment to sustainability is integral to our strategy, with sustainable finance product offerings and advice to support clients in their transition to a net zero world. In addition, our disciplined and integrated approach to risk management, along with continued investments in technology infrastructure, should position the business well to adapt to evolving regulatory and compliance requirements. With a prominent presence in Canada and strong momentum in the United States, we are building a solid foundation for profitable growth and sustainable returns.

The Canadian and U.S. economic environment in calendar 2023 and the outlook for calendar 2024 are discussed in more detail in the Economic Developments and Outlook section.

Caution
This BMO Capital Markets section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

Corporate Services, including Technology and Operations

Corporate Services consists of Corporate Units and Technology and Operations (T&O). Corporate Units provide enterprise-wide expertise, governance and support in a variety of areas, including strategic planning, risk management, treasury, finance, legal and regulatory compliance, sustainability, human resources, communications, marketing, real estate and procurement. T&O develops, monitors, manages and maintains governance of information technology, including data and analytics, and provides cyber security and operations services.

Corporate Services focuses on enterprise-wide priorities related to maintaining a sound internal control and risk management environment and regulatory compliance, including the management, assessment and monitoring of BMO's investment portfolios and funding, liquidity and capital activities, as well as any exposures to credit, foreign exchange and interest rate risks. In support of the operating segments, Corporate Services develops and implements enterprise-wide processes, systems and controls to maintain operating efficiency and enable our businesses to adapt and meet their customer experience objectives.

The costs of Corporate Units and T&O services are largely allocated to the four operating segments (Canadian P&C, U.S. P&C, BMO Wealth Management and BMO Capital Markets), with any remaining amounts retained in Corporate Services results. As such, Corporate Services results largely reflect the impact of residual unallocated expenses, residual treasury-related activities and the elimination of taxable equivalent adjustments. We review revenue and expense allocation methodologies on an annual basis.

Corporate Services, including Technology and Operations (1)

(Canadian $ in millions, except as noted) As at or for the year ended October 31	2023	2022
Net interest income before group teb offset	**(1,095)**	(716)
Group teb offset	**(354)**	(270)
Net interest income (teb)	**(1,449)**	(986)
Non-interest revenue	**(1,449)**	7,830
Total revenue (teb)	**(2,898)**	6,844
Provision for (recovery of) credit losses on impaired loans	**2**	(7)
Provision for (recovery of) credit losses on performing loans	**700**	7
Total provision for (recovery of) credit losses	**702**	–
Non-interest expense	**2,706**	1,383
Income (loss) before income taxes	**(6,306)**	5,461
Provision for (recovery of) income taxes (teb)	**(1,433)**	1,270
Reported net income (loss)	**(4,873)**	4,191
Initial provision for credit losses on purchased performing loans (2)	**517**	–
Acquisition and integration costs (3)	**1,520**	237
Impact of divestitures (4)	**–**	55
Management of fair value changes on the purchase of Bank of the West (5)	**1,461**	(5,667)
Legal provision (including related interest expense and legal fees) (6)	**21**	846
Impact of Canadian tax measures (7)	**502**	–
Adjusted net loss	**(852)**	(338)
Adjusted total revenue (teb)	**(719)**	(333)
Adjusted total recovery of credit losses	**(3)**	–
Adjusted non-interest expense	**660**	424
Net income (loss) available to common shareholders	**(5,081)**	4,087
Adjusted net loss available to common shareholders	**(1,060)**	(442)
Full-time equivalent employees	**18,181**	15,490
U.S. Business Select Financial Data (US$ in millions)		
Total revenue (teb) (8)	**(956)**	5,604
Total provision for (recovery of) credit losses	**518**	(4)
Non-interest expense	**1,688**	686
Provision for (recovery of) income taxes (teb) (8)	**(791)**	1,282
Reported net income (loss)	**(2,371)**	3,640
Adjusted total revenue	**571**	106
Adjusted total provision for (recovery of) credit losses	**1**	(4)
Adjusted non-interest expense	**190**	44
Adjusted net income (loss)	**240**	83

(1) Adjusted results are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.
(2) Fiscal 2023 reported net income included a provision for credit losses of $517 million ($705 million pre-tax) on the purchased Bank of the West performing loan portfolio.
(3) Fiscal 2023 reported net income included acquisition and integration costs related to Bank of the West of $1,520 million ($2,027 million pre-tax), and fiscal 2022 included $237 million ($316 million pre-tax). These amounts were recorded in non-interest expense.
(4) Fiscal 2022 reported net income included the impact of divestitures related to the sale of our EMEA and U.S. Asset Management businesses, comprising a gain of $8 million related to the transfer of certain U.S. asset management clients and a $29 million loss related to foreign currency translation reclassified from accumulated other comprehensive income, both recorded in non-interest revenue, and expenses of $16 million, including taxes of $22 million on the closing of the sale, recorded in non-interest expense.
(5) Fiscal 2023 reported net income included a loss of $1,461 million ($2,011 million pre-tax) related to the acquisition of Bank of the West resulting from the management of the impact of interest rate changes between the announcement and closing of the acquisition on its fair value and goodwill, comprising $1,628 million of mark-to-market losses on certain interest rate swaps recorded in trading revenue and $383 million of losses on a portfolio of primarily U.S. treasuries and other balance sheet instruments recorded in net interest income. Fiscal 2022 included revenue of $5,667 million ($7,713 million pre-tax), comprising $7,665 million of mark-to-market gains and $48 million of non-trading interest income. For further information on this acquisition, refer to the Recent Acquisitions section.
(6) Fiscal 2023 reported net income included the impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank, of $21 million ($27 million pre-tax), comprising interest expense of $30 million and a net non-interest expense recovery of $3 million. Fiscal 2022 included a provision of $846 million ($1,142 million pre-tax), comprising interest expense of $515 million and non-interest expense of $627 million. For further information, refer to the Provisions and Contingent Liabilities section in Note 24 of the audited annual consolidated financial statements.
(7) Fiscal 2023 reported net income included the impact of certain tax measures enacted by the Canadian government. These tax measures included a one-time tax expense of $371 million, comprising a Canada Recovery Dividend (CRD) of $312 million and $59 million related to the pro-rated fiscal 2022 impact of the 1.5% tax rate increase, net of a deferred tax asset remeasurement, and a charge of $131 million ($160 million pre-tax) related to the amended GST/HST definition for financial services, comprising $138 million recorded in non-interest revenue and $22 million recorded in non-interest expense.
(8) Fiscal 2023 reported net income included group teb offset amounts for our U.S. businesses of US$25 million and fiscal 2022 included US$31 million, recorded in revenue and provision for (recovery of) income taxes.

Financial Review

Corporate Services reported net loss was $4,873 million, compared with reported net income of $4,191 million in the prior year.

The reported net loss in the current year reflected a loss related to fair value management actions and the impact of certain Canadian tax measures, including the Canada Recovery Dividend and a charge related to the amended GST/HST definition for financial services, as well as higher acquisition and integration costs related to Bank of the West and an initial provision for credit losses on the purchased Bank of the West performing loan portfolio. Reported net income in the prior year reflected gains related to fair value management actions, partially offset by the impact of the lawsuit associated with M&I Marshall and Ilsley Bank.

Adjusted net loss was $852 million, compared with an adjusted net loss of $338 million in the prior year. Adjusted results were driven by higher expenses, primarily due to the inclusion of Bank of the West and lower revenue. Lower revenue was driven by treasury-related activities, partially offset by the impact of Bank of the West, which included the accretion of purchase accounting fair value marks on loans and deposits and the discount on securities, net of the amortization of the fair value hedge.

For further information on non-GAAP amounts, measures and ratios in this 2023 Operating Groups Performance Review section, refer to the Non-GAAP and Other Financial Measures section.

Summary Quarterly Earnings Trends

Summarized Statement of Income and Quarterly Financial Measures (1)

(Canadian $ in millions, except as noted)	**Q4-2023**	**Q3-2023**	**Q2-2023**	**Q1-2023**	Q4-2022	Q3-2022	Q2-2022	Q1-2022
Net interest income	**4,941**	**4,905**	**4,814**	**4,021**	3,767	4,197	3,902	4,019
Non-interest revenue	**3,419**	**3,024**	**3,626**	**2,449**	6,803	1,902	5,416	3,704
Revenue (1)	**8,360**	**7,929**	**8,440**	**6,470**	10,570	6,099	9,318	7,723
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	**151**	**4**	**591**	**1,193**	(369)	413	(808)	81
Revenue, net of CCPB (1)	**8,209**	**7,925**	**7,849**	**5,277**	10,939	5,686	10,126	7,642
Provision for credit losses on impaired loans	**408**	**333**	**243**	**196**	192	104	120	86
Provision for (recovery of) credit losses on performing loans	**38**	**159**	**780**	**21**	34	32	(70)	(185)
Total provision for (recovery of) credit losses	**446**	**492**	**1,023**	**217**	226	136	50	(99)
Non-interest expense	**5,700**	**5,594**	**5,522**	**4,403**	4,776	3,859	3,713	3,846
Income before income taxes	**2,063**	**1,839**	**1,304**	**657**	5,937	1,691	6,363	3,895
Provision for income taxes	**446**	**385**	**245**	**410**	1,454	326	1,607	962
Reported net income (see below)	**1,617**	**1,454**	**1,059**	**247**	4,483	1,365	4,756	2,933
Initial provision for credit losses on purchased performing loans (2)	**–**	**–**	**517**	**–**	–	–	–	–
Acquisition and integration costs (3)	**433**	**370**	**549**	**181**	145	62	28	10
Amortization of acquisition-related intangible assets (4)	**88**	**85**	**85**	**6**	6	5	6	6
Impact of divestitures (5)	**–**	**–**	**–**	**–**	(8)	6	9	48
Management of fair value changes on the purchase of Bank of the West (6)	**–**	**–**	**–**	**1,461**	(3,336)	694	(2,612)	(413)
Legal provision (including related interest expense and legal fees) (7)	**12**	**(3)**	**6**	**6**	846	–	–	–
Impact of Canadian tax measures (8)	**–**	**131**	**–**	**371**	–	–	–	–
Adjusted net income	**2,150**	**2,037**	**2,216**	**2,272**	2,136	2,132	2,187	2,584
Operating Group Reported and Adjusted Net Income								
Canadian P&C reported net income	**962**	**915**	**861**	**980**	917	965	940	1,004
Acquisition and integration costs (3)	**1**	**6**	**2**	**–**	–	–	–	–
Amortization of acquisition-related intangible assets (4)	**3**	**2**	**1**	**–**	–	–	1	–
Canadian P&C adjusted net income	**966**	**923**	**864**	**980**	917	965	941	1,004
U.S. P&C reported net income	**661**	**576**	**789**	**698**	660	568	588	681
Amortization of acquisition-related intangible assets (4)	**79**	**77**	**77**	**1**	2	1	1	1
U.S. P&C adjusted net income	**740**	**653**	**866**	**699**	662	569	589	682
BMO Wealth Management reported net income	**262**	**303**	**284**	**277**	298	324	314	315
Amortization of acquisition-related intangible assets (4)	**1**	**1**	**1**	**1**	–	1	1	1
BMO Wealth Management adjusted net income	**263**	**304**	**285**	**278**	298	325	315	316
BMO Capital Markets reported net income	**489**	**310**	**380**	**503**	357	262	448	705
Acquisition and integration costs (3)	**(2)**	**1**	**2**	**3**	2	1	2	3
Amortization of acquisition-related intangible assets (4)	**5**	**5**	**6**	**4**	4	3	3	4
BMO Capital Markets adjusted net income	**492**	**316**	**388**	**510**	363	266	453	712
Corporate Services reported net income (loss)	**(757)**	**(650)**	**(1,255)**	**(2,211)**	2,251	(754)	2,466	228
Initial provision for credit losses on purchased performing loans (2)	**–**	**–**	**517**	**–**	–	–	–	–
Acquisition and integration costs (3)	**434**	**363**	**545**	**178**	143	61	26	7
Impact of divestitures (5)	**–**	**–**	**–**	**–**	(8)	6	9	48
Management of fair value changes on the purchase of Bank of the West (6)	**–**	**–**	**–**	**1,461**	(3,336)	694	(2,612)	(413)
Legal provision (including related interest expense and legal fees) (7)	**12**	**(3)**	**6**	**6**	846	–	–	–
Impact of Canadian tax measures (8)	**–**	**131**	**–**	**371**	–	–	–	–
Corporate Services adjusted net income (loss)	**(311)**	**(159)**	**(187)**	**(195)**	(104)	7	(111)	(130)
Key Performance Metrics								
Basic earnings per share ($) (9)	**2.07**	**1.97**	**1.31**	**0.30**	6.52	1.96	7.15	4.44
Diluted earnings per share ($) (9)	**2.06**	**1.97**	**1.30**	**0.30**	6.51	1.95	7.13	4.43
Adjusted diluted earnings per share ($)	**2.81**	**2.78**	**2.93**	**3.22**	3.04	3.09	3.23	3.89
Net interest margin on average earning assets (%)	**1.66**	**1.68**	**1.69**	**1.48**	1.46	1.71	1.69	1.64
PCL-to-average net loans and acceptances (annualized) (%)	**0.27**	**0.30**	**0.65**	**0.15**	0.16	0.10	0.04	(0.08)
PCL on impaired loans-to-average net loans and acceptances (annualized) (%)	**0.25**	**0.21**	**0.16**	**0.14**	0.14	0.08	0.10	0.07
Effective tax rate (%)	**21.6**	**20.9**	**18.8**	**62.5**	24.5	19.3	25.2	24.7
Adjusted effective tax rate (%)	**22.7**	**21.8**	**22.5**	**22.3**	21.8	22.0	23.6	23.5
Canadian/U.S. dollar average exchange rate ($)	**1.3648**	**1.3331**	**1.3564**	**1.3426**	1.3516	1.2774	1.2665	1.2710

(1) Adjusted results exclude certain items from reported results and are used to calculate our adjusted measures as presented in the above table. Management assesses performance on a reported basis and an adjusted basis, and considers both to be useful. Revenue, net of CCPB, as well as reported ratios calculated net of CCPB, and adjusted results, measures and ratios in this table are non-GAAP amounts. For further information, refer to the Non-GAAP and Other Financial Measures section; and for details on the composition of non-GAAP amounts, measures and ratios, as well as supplementary financial measures, refer to the Glossary of Financial Terms.

(2) Reported net income included a provision for credit losses of $517 million ($705 million pre-tax) on the acquired Bank of the West performing loan portfolio in Q2-2023, recorded in Corporate Services.

(3) Reported net income included acquisition and integration costs recorded in non-interest expense. Costs related to the acquisition of Bank of the West were recorded in Corporate Services: Q4-2023 included $434 million ($583 million pre-tax), Q3-2023 included $363 million ($487 million pre-tax), Q2-2023 included $545 million ($722 million pre-tax), Q1-2023 included $178 million ($235 million pre-tax), Q4-2022 included $143 million ($191 million pre-tax), Q3-2022 included $61 million ($82 million pre-tax), Q2-2022 included $26 million ($35 million pre-tax) and Q1-2022 included $7 million ($8 million pre-tax). Costs related to Radicle and Clearpool were recorded in BMO Capital Markets: Q3-2023 included $1 million ($2 million pre-tax), Q2-2023 included $2 million ($2 million pre-tax), Q1-2023 included $3 million ($4 million pre-tax), Q4-2022 included $2 million ($2 million pre-tax), Q3-2022 included $1 million ($2 million pre-tax), Q2-2022 included $2 million ($2 million pre-tax) and Q1-2022 included $3 million ($4 million pre-tax). Q4-2023 included a recovery of $2 million ($3 million pre-tax). Costs related to the acquisition of AIR MILES were recorded in Canadian P&C: Q4-2023 included $1 million ($2 million pre-tax), Q3-2023 included $6 million ($8 million pre-tax) and Q2-2023 included $2 million ($3 million pre-tax).

(4) Reported net income included amortization of acquisition-related intangible assets recorded in non-interest expense in the related operating group: Q4-2023 included $88 million ($119 million pre-tax), Q3-2023 and Q2-2023 both included $85 million ($115 million pre-tax), Q1-2023 and Q4-2022 both included $6 million ($8 million pre-tax), Q3-2022 included $5 million ($7 million pre-tax), and Q2-2022 and Q1-2022 both included $6 million ($8 million pre-tax).

(5) Reported net income in fiscal 2022 included the impact of divestitures related to the sale of our EMEA and U.S. Asset Management businesses: Q4-2022 included an $8 million ($6 million pre-tax) recovery of non-interest expense; Q3-2022 included non-interest expense of $6 million ($7 million pre-tax); Q2-2022 included a loss of $9 million ($10 million pre-tax), comprising a gain of $8 million related to the transfer of certain U.S. asset management clients recorded in non-interest revenue and non-interest expense of $18 million; and Q1-2022 included a loss of $48 million ($26 million pre-tax), comprising a $29 million loss related to foreign currency translation reclassified from accumulated other comprehensive income to non-interest revenue, and a $3 million net recovery of non-interest expense, including taxes of $22 million on closing of the sale of our EMEA Asset Management businesses. These amounts were recorded in Corporate Services.

(6) Reported net income included revenue (losses) related to the acquisition of Bank of the West resulting from the management of the impact of interest rate changes between the announcement and closing of the acquisition on its fair value and goodwill: Q1-2023 included a loss of $1,461 million ($2,011 million pre-tax), comprising $1,628 million of mark-to-market losses on certain interest rate swaps recorded in non-interest trading revenue and $383 million of losses on a portfolio of primarily U.S. treasuries and other balance sheet instruments recorded in net interest income; Q4-2022 included revenue of $3,336 million ($4,541 million pre-tax), comprising $4,698 million of mark-to-market gains and $157 million of net interest losses; Q3-2022 included a loss of $694 million ($945 million pre-tax), comprising $983 million of mark-to-market losses and $38 million of net interest income; Q2-2022 included revenue of $2,612 million ($3,555 million pre-tax), comprising $3,433 million of mark-to-market gains and $122 million of net interest income; and Q1-2022 included revenue of $413 million ($562 million pre-tax), comprising $517 million of mark-to-market gains and $45 million of net interest income. These amounts were recorded in Corporate Services. For further information on this acquisition, refer to the Recent Acquisitions section.

(7) Reported net income included the impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank: Q4-2023 included $12 million ($16 million pre-tax), comprising interest expense of $14 million and non-interest expense of $2 million; Q3-2023 included a net recovery of $3 million ($4 million pre-tax), comprising interest expense of $3 million and a non-interest expense recovery of $7 million; Q2-2023 included interest expense of $6 million ($7 million pre-tax); Q1-2023 included $6 million ($8 million pre-tax), comprising interest expense of $6 million and non-interest expense of $2 million; and Q4-2022 included a legal provision of $846 million ($1,142 million pre-tax), comprising interest expense of $515 million and non-interest expense of $627 million. These amounts were recorded in Corporate Services. For further information, refer to the Provisions and Contingent Liabilities section in Note 24 of the audited annual consolidated financial statements.

(8) Reported net income included the impact of certain tax measures enacted by the Canadian government: Q3-2023 included a charge of $131 million ($160 million pre-tax) related to the amended GST/HST definition for financial services, comprising $138 million recorded in non-interest revenue and $22 million recorded in non-interest expense; and Q1-2023 included a one-time tax expense of $371 million, comprising a Canada Recovery Dividend (CRD) of $312 million and $59 million related to the pro-rated fiscal 2022 impact of the 1.5% tax rate increase, net of a deferred tax asset remeasurement. These amounts were recorded in Corporate Services.

(9) Net income and earnings from our business operations are attributable to shareholders by way of EPS and diluted EPS. Adjusted EPS and adjusted diluted EPS are non-GAAP measures. For further information, refer to the Non-GAAP and Other Financial Measures section.

Earnings in certain quarters are impacted by modest seasonal factors, such as higher employee expenses related to higher employee benefits and stock-based compensation for employees eligible to retire that are recorded in the first quarter of each year, as well as the impact of fewer days in the second quarter relative to other quarters. Quarterly earnings are also impacted by foreign currency translation. The table above outlines summary results for the first quarter of 2022 through the fourth quarter of 2023.

On February 1, 2023, we completed the acquisition of Bank of the West, which contributed to the increase in revenue, expenses and provision for credit losses beginning in the second quarter of 2023, with operating results primarily allocated to our U.S. P&C and BMO Wealth Management businesses. In addition, we completed the acquisition of AIR MILES Reward Program (AIR MILES) on June 1, 2023, which contributed to the increase in revenue and expenses in our Canadian P&C business beginning in the third quarter of 2023.

Financial performance has demonstrated good operating momentum and benefitted from the strength and diversification of our businesses. Results were impacted by a higher interest rate environment resulting in an increase in net interest income, while uncertain economic conditions resulted in lower levels of client activity in our market-sensitive businesses, as well as higher provisions for credit losses from historically low levels.

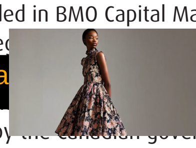
A number of items impacted reported results in certain quarters. The third quarter and first quarter of 2023 included the impact of certain tax measures enacted by the Canadian government, reducing revenue and increasing expenses and provision for income taxes. The second quarter of 2023 included an initial provision for credit losses on the purchased Bank of the West performing loan portfolio. The first quarter of 2023 and fiscal 2022 included revenue (losses) resulting from fair value management actions related to the impact of interest rate changes between the announcement and closing of the Bank of the West acquisition on its fair value and goodwill. The fourth quarter of 2022 included a legal provision related to a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank. Results in 2022 included the impact of divestitures related to the sale of our EMEA and U.S. Asset Management businesses. All periods included acquisition and integration costs, as well as the amortization of acquisition-related intangible assets, which increased in recent quarters due to the acquisition of Bank of the West.

Revenue in our P&C businesses benefitted from customer acquisition, higher loan and deposit volumes and margin expansion, reflective of higher rate environments in both Canada and the United States, as well as the inclusion of Bank of the West revenue. Revenue in BMO Wealth Management benefitted from steady growth in client assets and higher net interest income, while the impact of weaker global markets in fiscal 2023 negatively impacted non-interest revenue, relative to fiscal 2022. Insurance revenue, net of CCPB, is subject to variability, resulting from changes in interest rates and equity markets. BMO Capital Markets' performance in recent quarters reflects modest improvements in market conditions, particularly in M&A and underwriting activities.

Early in 2022, as the economy recovered from the economic downturn brought on by the pandemic, we recovered provisions on performing loans, reflecting favourable credit conditions and positive credit migration. Later in 2022, we saw signs of normalization in credit conditions with gradually increasing provisions on impaired loans and modest provisions on performing loans reflecting balance growth and deterioration in the economic outlook. In 2023, the macroeconomic outlook improved, but this was more than offset by downward credit migration, resulting in higher provisions for performing loans and an increase in losses on impaired loans during the year.

Non-interest expense growth has reflected investments to drive revenue growth and efficiency improvement, as well as the impact of inflation, resulting in higher employee-related costs, including sales force expansion, higher salaries and performance-based compensation, as well as higher technology and advertising costs. The third quarter of fiscal 2023 included severance costs to accelerate efficiency initiatives across the enterprise, as well as the impact of legal provisions recorded in BMO Capital Markets.

The effective tax rate has varied with le anges in tax policy, including their interpretation by tax authorities and the courts; earnings mix, i table to the different jurisdictions in which we operate, the level of pre-tax income, and the level o dits, or tax-exempt income from securities. The reported effective tax rate was impacted by certain tax measures enacted by nment as noted above, fair value management actions relating to the acquisition of Bank of the West in the first quarter of 2023 and in fiscal 2022, and the sale of our EMEA and U.S. Asset Management businesses in 2022.



For further information on non-GAAP amounts, measures and ratios in this Summary Quarterly Earnings Trends section, refer to the Non-GAAP and Other Financial Measures section.

Review of Fourth Quarter 2023 Performance

Q4 2023 vs. Q4 2022

Net Income

Reported net income was $1,617 million, a decrease of $2,866 million or 64% from the prior year, and adjusted net income was $2,150 million, an increase of $14 million or 1% from the prior year. Adjusted results in both the current quarter and the prior year excluded acquisition and integration costs, amortization of acquisition-related intangible assets and the impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank. Adjusted results in the prior year also excluded the impact of fair value management actions related to the acquisition of Bank of the West. Reported EPS was $2.06, a decrease of $4.45 from the prior year, and adjusted EPS was $2.81, a decrease of $0.23, including the impact of common share issuances in the first quarter of 2023.

The decrease in reported results reflected the impact of fair value management actions in the prior year and higher acquisition-related costs in the current quarter, partially offset by lower legal provisions related to the lawsuit noted above. Adjusted net income increased due to the inclusion of Bank of the West, as well as higher underlying revenue, largely offset by higher expenses and a higher provision for credit losses.

Revenue

Reported revenue was $8,360 million, a decrease of $2,210 million or 21% from the prior year. Revenue, net of insurance claims, commissions and changes in policy benefit liabilities (CCPB), was $8,209 million, a decrease of $2,730 million or 25% from the prior year, and adjusted revenue, net of CCPB, was $8,223 million, an increase of $1,310 million or 19%. The decrease in reported results primarily reflected the impact of fair value management actions in the prior year, partially offset by lower interest expense related to the lawsuit associated with M&I Marshall and Ilsley Bank. On an adjusted basis, revenue, net of CCPB, increased across all operating groups, including the addition of Bank of the West and AIR MILES, reflecting higher net interest income and non-interest revenue. Revenue in Corporate Services decreased on a reported and an adjusted basis.

Insurance Claims, Commissions and Changes in Policy Benefit Liabilities

Insurance claims, commissions and changes in policy benefit liabilities (CCPB) were $151 million, an increase of $520 million from the prior year, largely driven by higher annuity premiums. These changes were largely offset in insurance revenue.

Provision for Credit Losses

Total provision for credit losses was $446 million, compared with $226 million in the prior year. The total provision for credit losses as a percentage of average net loans and acceptances ratio was 27 basis points, compared with 16 basis points in the prior year. The provision for credit losses on impaired loans was $408 million, an increase of $216 million from the prior year. The provision for credit losses on impaired loans as a percentage of average net loans and acceptances ratio was 25 basis points, compared with 14 basis points in the prior year. The provision for credit losses on performing loans was $38 million, compared with a $34 million provision in the prior year.

Non-Interest Expense

Reported non-interest expense was $5,700 million, an increase of $924 million or 19% from the prior year, and adjusted non-interest expense was $4,997 million, an increase of $1,043 million or 26%. Reported results reflected higher acquisition and integration costs and amortization of acquisition-related intangible assets compared with the prior year, partially offset by lower expenses related to the lawsuit associated with M&I Marshall and Ilsley Bank. Reported and adjusted non-interest expense increased due to the impact of Bank of the West and AIR MILES, as well as higher employee-related costs, higher premises costs, including a charge related to the consolidation of BMO real estate in the current quarter, and higher advertising costs.

Provision for Income Taxes

The reported provision for income taxes was $446 million, a decrease of $1,008 million from the fourth quarter of 2022, and the adjusted provision for income taxes was $630 million, an increase of $33 million. The effective tax rate for the current quarter was 21.6%, compared with 24.5% in the fourth quarter of 2022, and the adjusted effective tax rate was 22.7% in the current quarter, compared with 21.8%. The change in the reported effective tax rate in the current quarter relative to the fourth quarter of 2022 was primarily due to the impact of higher pre-tax earnings in the prior year, and the change in the adjusted effective tax rate was primarily due to earnings mix.

Q4 2023 vs. Q3 2023

Reported net income increased $163 million or 11% from the prior quarter, and adjusted net income increased $113 million or 6%. The increase in reported net income was primarily due to the impact of certain tax measures in the prior quarter, partially offset by higher acquisition-related costs in the current quarter. The increase in adjusted net income primarily reflected higher revenue. Reported net income increased in BMO Capital Markets, Canadian P&C and U.S. P&C, and decreased in BMO Wealth Management. Corporate Services recorded a higher net loss on both a reported and an adjusted basis, compared with the prior quarter.

Reported revenue increased $431 million or 5% from the prior quarter. Reported revenue, net of CCPB, increased $284 million or 4%, including the impact of certain tax measures in the prior quarter, and adjusted revenue, net of CCPB, increased $157 million or 2% from the prior quarter, reflecting higher net interest income and higher non-interest revenue. CCPB increased $147 million from the prior quarter, reflecting higher annuity premiums and lower claims associated with a change in our longevity portfolios in the prior quarter, partially offset by changes in the fair value of investments. These changes were largely offset in insurance revenue. Reported non-interest expense increased $106 million or 2% from the prior quarter, and adjusted non-interest expense increased $30 million or 1%, primarily due to the impact of the stronger U.S. dollar. Total provision for credit losses decreased $46 million from the prior quarter, with a higher provision on impaired loans more than offset by a lower provision on performing loans.

For further information on non-GAAP amounts, measures and ratios in this Review of Fourth Quarter 2023 Performance section, refer to the Non-GAAP and Other Financial Measures section.

2022 Financial Performance Review

The preceding discussions in the MD&A focused on BMO's performance in fiscal 2023. This section summarizes BMO's performance in fiscal 2022 relative to fiscal 2021. Periodically, certain lines of business and units within our organizational structure are realigned to support our strategic priorities, and comparative figures in prior periods have been reclassified to conform with the current period's presentation. Further information on these reclassifications is provided in the How BMO Reports Operating Group Results section.

(Canadian $ in millions)	Canadian P&C	U.S. P&C	Total P&C	BMO Wealth Management	BMO Capital Markets	Corporate Services	Total Bank
2022							
Net interest income (loss) (1)	7,449	5,037	12,486	1,188	3,197	(986)	15,885
Non-interest revenue	2,419	1,265	3,684	3,336	2,975	7,830	17,825
Revenue (1)	9,868	6,302	16,170	4,524	6,172	6,844	33,710
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	–	–	–	(683)	–	–	(683)
Revenue, net of CCPB	9,868	6,302	16,170	5,207	6,172	6,844	34,393
Provision for (recovery of) credit losses	341	17	358	(2)	(43)	–	313
Non-interest expense	4,349	3,043	7,392	3,564	3,855	1,383	16,194
Income before income taxes	5,178	3,242	8,420	1,645	2,360	5,461	17,886
Provision for income taxes (1)	1,352	745	2,097	394	588	1,270	4,349
Net income (loss)	3,826	2,497	6,323	1,251	1,772	4,191	13,537
Acquisition and integration costs	–	–	–	–	8	237	245
Amortization of acquisition-related intangible assets	1	5	6	3	14	–	23
Impact of divestitures	–	–	–	–	–	55	55
Restructuring costs (reversals)	–	–	–	–	–	–	–
Legal provision (including related interest expense and legal fees)	–	–	–	–	–	846	846
Management of fair value changes on the purchase of Bank of the West	–	–	–	–	–	(5,667)	(5,667)
Adjusted net income (loss)	3,827	2,502	6,329	1,254	1,794	(338)	9,039
2021							
Net interest income (loss) (1)	6,561	4,268	10,829	982	3,115	(616)	14,310
Non-interest revenue	2,225	1,243	3,468	6,071	3,011	326	12,876
Revenue (1)	8,786	5,511	14,297	7,053	6,126	(290)	27,186
Insurance claims, commissions and changes in policy benefit liabilities (CCPB)	–	–	–	1,399	–	–	1,399
Revenue, net of CCPB	8,786	5,511	14,297	5,654	6,126	(290)	25,787
Provision for (recovery of) credit losses	377	(144)	233	(12)	(194)	(7)	20
Non-interest expense	3,968	2,813	6,781	3,843	3,462	1,423	15,509
Income (loss) before income taxes	4,441	2,842	7,283	1,823	2,858	(1,706)	10,258
Provision for (recovery of) income taxes (1)	1,153	666	1,819	441	738	(494)	2,504
Net income (loss)	3,288	2,176	5,464	1,382	2,120	(1,212)	7,754
Acquisition and integration costs	–	–	–	–	7	–	7
Amortization of acquisition-related intangible assets	1	24	25	24	17	–	66
Impact of divestitures	–	–	–	–	–	842	842
Restructuring costs (reversals)	–	–	–	–	–	(18)	(18)
Adjusted net income (loss)	3,289	2,200	5,489	1,406	2,144	(388)	8,651

(1) Operating group revenue, net interest income and provision for income taxes are presented on a taxable equivalent basis (teb). The offset to the groups' teb adjustments is reflected in Corporate Services. For further information, refer to the How BMO Reports Operating Group Results section.

Revenue measures, net of CCPB, and adjusted results and ratios are on a non-GAAP basis and are discussed in the Non-GAAP and Other Financial Measures section.

Refer to footnotes (1) to (8) in the Non-GAAP and Other Financial Measures table for further information on adjusting items.

Net Income

Reported net income in 2022 was $13,537 million, an increase of $5,783 million or 75% from 2021, and adjusted net income was $9,039 million, an increase of $388 million or 4%. Reported results in 2022 included revenue of $5,667 million ($7,713 million pre-tax) related to management of the impact of interest rate changes between the announcement and closing of the Bank of the West acquisition on its fair value and goodwill, and related acquisition and integration costs of $237 million ($316 million pre-tax). In addition, 2022 included the impact of a lawsuit associated with a predecessor bank, M&I Marshall and Ilsley Bank, of $846 million ($1,142 million pre-tax), and the impact of divestitures related to the sale of our EMEA Asset Management businesses and the transfer of certain U.S. asset management clients of $55 million. Reported results in 2021 included a $779 million (pre-tax and after-tax) write-down of goodwill related to the sale of our EMEA Asset Management businesses, a $22 million ($29 million pre-tax) net gain on the sale of our Private Banking business in Hong Kong and Singapore, and $85 million ($107 million pre-tax) of divestiture-related costs for both transactions, partially offset by the partial reversal of $18 million ($24 million pre-tax) of restructuring charges recorded in 2019 related to severance. In addition, reported net income in both years included the amortization of acquisition-related intangible assets and acquisition and integration costs. The increase in reported net income was driven by the impact of fair value management actions in 2022. Adjusted results increased, primarily due to higher net revenue, partially offset by higher expenses and a higher provision for credit losses. Net income increased in our P&C businesses, and decreased in BMO Capital Markets and BMO Wealth Management. On a reported basis, Corporate Services recorded net income of $4,191 million, compared with a net loss of $1,212 million in the prior year, and on an adjusted basis recorded a lower net loss compared with the prior year.

Return on Equity

Reported return on equity (ROE) was 22.9% in 2022 and adjusted ROE was 15.2%, compared with 14.9% and 16.7%, respectively, in 2021. Reported ROE increased due to higher net income, including the impact of fair value management actions related to the acquisition of Bank of the West. Adjusted ROE decreased, as higher net income was offset by an increase in common equity. Average common shareholders' equity increased $7.6 billion or 15% from 2021, primarily due to growth in retained earnings and the issuance of common shares related to the acquisition of Bank of the West, partially offset by a decrease in accumulated other comprehensive income. The reported return on tangible common equity (ROTCE) was 25.1% in 2022, compared with 17.0% in 2021, and adjusted ROTCE was 16.6%, compared with 18.9%. Book value per share increased 19% from 2021 to $95.60 in 2022, reflecting the increase in shareholders' equity.

Revenue

Reported revenue in 2022 was $33,710 million, an increase of $6,524 million from 2021, and adjusted revenue was $26,533 million, a decrease of $624 million or 2%. On a basis that nets insurance claims, commissions and changes in policy benefit liabilities (CCPB) against insurance revenue (net revenue), reported net revenue in 2022 was $34,393 million, an increase of $8,606 million or 33% from 2021, and adjusted net revenue was $27,216 million, an increase of $1,458 million or 6%. Reported revenue in 2022 included $7,713 million related to fair value management actions, comprising $7,665 million of pre-tax mark-to-market gains on certain interest rate swaps recorded in non-interest trading revenue and $48 million of non-trading interest income on a portfolio of primarily U.S. treasury securities. In addition, reported revenue included interest expense of $515 million related to the lawsuit noted above. Both years included the impact of divestitures.

Canadian P&C

Total revenue in 2022 increased $1,082 million or 12% from 2021. Net interest income increased $888 million or 14%, due to higher loan and deposit balances and higher net interest margins. Non-interest revenue increased $194 million or 9%, with higher revenue across most categories, including card-related revenue and deposit fee revenue, partially offset by lower gains on investments in our commercial business. Personal and Business Banking revenue increased $736 million or 12%, and Commercial Banking revenue increased $346 million or 13%.

U.S. P&C

Total revenue in 2022 increased $791 million or 14% from 2021 on a Canadian dollar basis. On a U.S. dollar basis, revenue increased $484 million or 11%, primarily due to an increase in net interest income of $493 million or 14%, reflecting higher loan and deposit balances and higher net interest margins, partially offset by lower Paycheck Protection Program (PPP) [1] revenue. Non-interest revenue was relatively unchanged. Commercial Banking revenue increased $377 million or 12%, and Personal and Business Banking revenue increased $107 million or 8%.

BMO Wealth Management

Total revenue in 2022 was $4,524 million, compared with $7,053 million in 2021. Revenue, net of CCPB, in 2022 decreased $447 million or 8%. Revenue in Wealth and Asset Management decreased $426 million or 8%, due to divestitures, partially offset by underlying revenue growth of 5%, reflecting higher net interest income due to strong deposit and loan growth and higher net interest margins, as well as the benefit from growth in net new client assets, partially offset by lower online brokerage transaction revenue and the impact of weaker global markets. Insurance revenue, net of CCPB, decreased $21 million or 5% from 2021, primarily due to the impact of less favourable market movements in 2022 relative to 2021.

BMO Capital Markets

Revenue in 2022 increased $46 million or 1% from 2021. Global Markets revenue increased $158 million or 4%, primarily due to higher foreign exchange, equities and commodities trading revenue and the impact of the stronger U.S. dollar, partially offset by lower interest rate trading revenue and lower levels of new equity and debt issuances. Investment and Corporate Banking revenue decreased $112 million or 4%, primarily due to lower net securities gains, lower underwriting and advisory revenue reflecting lower levels of client activity given market conditions, and mark-downs on loan underwriting commitments, partially offset by higher corporate banking-related revenue and the impact of the stronger U.S. dollar.

(1) The U.S. Small Business Administration Paycheck Protection Program (PPP) is a government relief program implemented in fiscal 2020 to support businesses that faced financial hardship caused by the COVID-19 pandemic.

Corporate Services

Reported revenue in 2022 increased $7,134 million from 2021, and adjusted revenue decreased $14 million. Reported revenue in 2022 included the impact of fair value management actions related to the acquisition of Bank of the West and a legal provision related to a lawsuit noted above. In addition, both years included the impact of divestitures.

Insurance Claims, Commissions and Changes in Policy Benefit Liabilities

Insurance claims, commissions and changes in policy benefit liabilities (CCPB) were negative $683 million in 2022, compared with $1,399 million in 2021. CCPB decreased, primarily due to changes in the fair value of policy benefit liabilities and the impact of lower annuity sales. The changes were largely offset in revenue.

Provision for Credit Losses

The total provision for credit losses (PCL) in 2022 was $313 million, compared with $20 million in 2021. PCL on impaired loans was $502 million in 2022, a decrease of $23 million from 2021, largely due to lower provisions in Canadian P&C and BMO Capital Markets, partially offset by higher provisions in U.S. P&C. There was a $189 million recovery of the provision for credit losses on performing loans in 2022, compared with a $505 million recovery in 2021. The year-over-year change largely reflected the impact of a deteriorating economic outlook, a lower benefit from improvement in credit quality and stronger balance growth, partially offset by reduced uncertainty as a result of the improving pandemic environment and a smaller impact from changes in scenario weight.

Non-Interest Expense

Reported non-interest expense in 2022 was $16,194 million, an increase of $685 million or 4% from 2021, and adjusted non-interest expense was $15,194 million, an increase of $664 million or 4% from 2021. Reported non-interest expense in 2022 included $627 million related to the lawsuit noted above and in 2021, included a $24 million partial reversal of a restructuring charge. Reported non-interest expense in both years included the impact of divestiture costs, acquisition and integration costs, and the amortization of acquisition-related intangible assets. Reported and adjusted non-interest expense increased, due to higher employee-related costs, computer and equipment costs, advertising and business development costs and professional fees, partially offset by lower premises costs and divestitures.

Provision for Income Taxes

The provision for income taxes in 2022 was $4,349 million, compared with $2,504 million in 2021. The reported effective tax rate was 24.3%, compared with 24.4% in 2021. The adjusted provision for income taxes was $2,670 million, compared with $2,537 million in 2021. The adjusted effective tax rate was 22.8%, compared with 22.7% in 2021.

For further information on non-GAAP amounts, measures and ratios in this 2022 Financial Performance Review section, refer to the Non-GAAP and Other Financial Measures section.

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Financial Condition Review

Summary Balance Sheet

(Canadian $ in millions) As at October 31	**2023**	2022
Assets		
Cash and cash equivalents and interest bearing deposits with banks	**82,059**	93,200
Securities	**322,379**	273,262
Securities borrowed or purchased under resale agreements	**115,662**	113,194
Net loans	**656,478**	551,339
Derivative instruments	**39,976**	48,160
Other assets	**76,722**	60,044
Total assets	**1,293,276**	1,139,199
Liabilities and Equity		
Deposits	**909,676**	769,478
Derivative instruments	**50,193**	59,956
Securities lent or sold under repurchase agreements	**106,108**	103,963
Other liabilities	**142,034**	126,614
Subordinated debt	**8,228**	8,150
Equity	**77,009**	71,038
Non-controlling interest in subsidiaries	**28**	–
Total liabilities and equity	**1,293,276**	1,139,199

MD&A

Overview

Total assets of $1,293.3 billion increased $154.1 billion from October 31, 2022. The stronger U.S. dollar increased assets by $9.2 billion, excluding the impact on derivative assets. Total liabilities of $1,216.2 billion increased $148.1 billion from the prior year. The stronger U.S. dollar increased liabilities by $8.8 billion, excluding the impact of derivative liabilities. Total equity of $77.0 billion increased $6.0 billion from October 31, 2022, including share issuances during the first quarter of 2023.

Cash and Interest Bearing Deposits with Banks

Cash and interest bearing deposits with banks decreased $11.1 billion, primarily reflecting the use of cash accumulated in the prior year for the completion of the Bank of the West acquisition on February 1, 2023.

Securities

(Canadian $ in millions) As at October 31	**2023**	2022
Trading	**124,556**	108,177
Fair value through profit or loss (FVTPL) (1)	**16,720**	13,641
Fair value through other comprehensive income – Debt and equity (2)	**62,828**	43,561
Amortized cost (3)	**116,814**	106,590
Investments in associates and joint ventures	**1,461**	1,293
Total securities	**322,379**	273,262

(1) Included securities mandatorily measured at FVTPL of $6,729 million ($4,410 million as at October 31, 2022) and securities designated at fair value of $9,991 million ($9,231 million as at October 31, 2022).
(2) Included allowances for credit losses on debt securities recorded at fair value through other comprehensive income of $3 million as at October 31, 2023 ($3 million as at October 31, 2022).
(3) Net of allowances for credit losses of $3 million ($3 million as at October 31, 2022).

Securities increased $49.1 billion, primarily due to the inclusion of Bank of the West, higher levels of client activity in BMO Capital Markets and the impact of the stronger U.S. dollar.

Securities Borrowed or Purchased Under Resale Agreements

Securities borrowed or purchased under resale agreements increased $2.5 billion, due to higher levels of client activity in BMO Capital Markets and the impact of the stronger U.S. dollar.

Net Loans

(Canadian $ in millions) As at October 31	**2023**	2022
Residential mortgages	**177,250**	148,880
Consumer instalment and other personal	**104,040**	86,103
Credit cards	**12,294**	9,663
Businesses and governments	**366,701**	309,310
Gross loans	**660,285**	553,956
Allowance for credit losses	**(3,807)**	(2,617)
Total net loans	**656,478**	551,339

Net loans increased $105.1 billion from October 31, 2022, due to the inclusion of Bank of the West, growth in residential mortgages and credit card balances in Canadian P&C, growth in business and government loans in Canadian P&C and BMO Capital Markets and the impact of the stronger U.S. dollar, partially offset by lower source currency balances in U.S. P&C.

Table 4 in the Supplemental Information provides a comparative summary of loans by geographic location and product. Table 6 in the Supplemental Information provides a comparative summary of net loans in Canada by province and industry. Loan quality is discussed in the Credit Quality Information section, and further details on loans are provided in Notes 4, 6 and 24 of the audited annual consolidated financial statements.

Derivative Financial Assets

Derivative financial assets decreased $8.2 billion, primarily reflecting a decrease in the fair value of client-driven trading derivatives in BMO Capital Markets, with decreases in the fair value of commodities, foreign exchange and equity contracts, partially offset by an increase in the fair value of interest rate contracts. Further details on derivative financial assets are provided in Note 8 of the audited annual consolidated financial statements.

Other Assets

Other assets primarily include goodwill and intangible assets, customers' liability under acceptances, cash collateral, insurance-related assets, premises and equipment, precious metals, current and deferred tax assets, accounts receivable and prepaid expenses. Other assets increased $16.7 billion, primarily due to goodwill and intangible assets related to Bank of the West, higher deferred tax assets and higher precious metals balances, partially offset by lower customers' liability under acceptances due to lower levels of acceptances issued into the market. Further details on other assets are provided in Notes 9, 11, 12 and 22 of the audited annual consolidated financial statements.

Deposits

(Canadian $ in millions) As at October 31	**2023**	2022
Banks	**29,587**	30,901
Businesses and governments	**574,670**	495,831
Individuals	**305,419**	242,746
Total deposits	**909,676**	769,478

Deposits increased $140.2 billion. Business and government deposits increased $78.8 billion, reflecting the inclusion of Bank of the West, higher wholesale funding balances primarily to fund Global Markets client activity, growth in customer deposits in Canadian P&C and the impact of the stronger U.S. dollar, partially offset by lower source currency customer deposits in U.S. P&C. Deposits by individuals increased $62.7 billion, primarily reflecting the inclusion of Bank of the West and growth in customer deposits in the P&C businesses, partially offset by lower customer deposits in BMO Wealth Management.

Deposits by banks were relatively unchanged from the prior year. Further details on the composition of deposits are provided in Note 13 of the audited annual consolidated financial statements and in the Liquidity and Funding Risk section.

Derivative Financial Liabilities

Derivative financial liabilities decreased $9.8 billion, primarily due to a decrease in the fair value of client-driven trading derivatives in BMO Capital Markets, with decreases in the fair value of foreign exchange, equity and commodities contracts, partially offset by an increase in the fair value of interest rate contracts.

Securities Lent or Sold Under Repurchase Agreements

Securities lent or sold under repurchase agreements increased $2.1 billion, primarily due to the impact of the stronger U.S. dollar and Treasury activities.

Other Liabilities

Other liabilities primarily include securities sold but not yet purchased, securitization and structured entities liabilities, acceptances, insurance-related liabilities and accounts payable. Other liabilities increased $15.4 billion, driven by higher Federal Home Loan Bank borrowings, higher accrued interest payable, an increase in securities sold but not yet purchased due to higher levels of client activity in BMO Capital Markets and higher insurance-related liabilities, partially offset by lower acceptances as a result of lower levels of acceptances issued into the market.

Further details on the composition of other liabilities are provided in Note 14 of the audited annual consolidated financial statements.

Subordinated Debt

Subordinated debt was relatively unchanged from the prior year, reflecting a new issuance, net of a redemption. Further details on the composition of subordinated debt are provided in Note 15 of the audited annual consolidated financial statements.

Equity

(Canadian $ in millions) As at October 31	**2023**	2022
Share capital		
Preferred shares and other equity instruments	**6,958**	6,308
Common shares	**22,941**	17,744
Contributed surplus	**328**	317
Retained earnings	**44,920**	45,117
Accumulated other comprehensive income	**1,862**	1,552
Total equity	**77,009**	71,038

Total equity increased $6.0 billion from October 31, 2022, primarily due to common and preferred share issuances. Common shares increased $5.2 billion, reflecting share issuances during the first quarter of 2023, as well as shares issued under the dividend reinvestment and share purchase plan. Preferred shares and other equity instruments increased $0.7 billion, as a result of an issuance in the first quarter of 2023. Accumulated other comprehensive income increased $0.3 billion, primarily due to the impact of the stronger U.S. dollar on the translation of net foreign operations, partially offset by losses on remeasurement of own credit risk on financial liabilities designated at fair value and the impact of higher interest rates on cash flow hedges. Retained earnings decreased $0.2 billion, as a result of dividends and distributions on other equity instruments, partially offset by net income earned in the current year.

The Consolidated Statement of Changes in Equity in the audited annual consolidated financial statements provides a summary of items that increase or reduce total equity, while Note 16 of the audited annual consolidated financial statements provides details on the components of, and changes in, share capital. Details on our enterprise-wide capital management practices and strategies can be found below.

MD&A

Enterprise-Wide Capital Management

Capital Management

Objective

BMO is committed to a disciplined approach to capital management that balances the interests and requirements of our shareholders, regulators, depositors, fixed income investors and rating agencies. We recognize the emerging global trend of rising regulatory capital requirements, and manage our capital position accordingly. Our objective is to maintain a strong capital position in a cost-effective structure that:

- Is appropriate given BMO's target regulatory capital ratios and internal assessment of economic capital requirements
- Underpins BMO's operating groups' business strategies and considers the market environment
- Supports depositor, investor and regulator confidence, while building long-term shareholder value
- Is consistent with BMO's target credit ratings.

Framework

Capital Demand
Capital required to support the risks underlying our business activities

Capital adequacy assessment of capital demand and supply

Capital Supply
Capital available to support risks

The principles and key elements of our capital management framework are outlined in our Capital Management Corporate Policy and in the annual capital plan, which includes the results of the comprehensive Internal Capital Adequacy Assessment Process (ICAAP).

ICAAP is an integrated process that involves the application of stress testing and other tools to assess capital adequacy on both a regulatory and an economic capital basis. The results of this process inform and support the establishment of capital targets and the implementation of capital strategies that take into consideration the strategic direction and risk appetite of the enterprise. The annual capital plan is developed considering the results of ICAAP and in conjunction with the annual business plan, promoting alignment between business and risk strategies, regulatory and economic capital requirements and the availability of capital. Enterprise-wide stress testing and scenario analysis are conducted in order to assess the impact of various stress conditions on our risk profile and capital requirements. Our capital management framework seeks to ensure that the bank is adequately capitalized given the risks we assume in the normal course of business, as well as under stress, and supports the determination of limits, targets and performance measures that are applied in managing balance sheet positions, risk levels and capital requirements at both the consolidated entity and operating group levels. We seek to optimize our capital through efficient use of our balance sheet and the related risks we undertake, and may employ levers such as risk transfer transactions and the sale of assets. We evaluate assessments of actual and forecast capital adequacy against our capital plan throughout the year, including consideration of changes in our business activities and risk profile, as well as the operating environment or regulatory requirements or expectations.

We allocate capital to operating groups in order to evaluate business performance, and we view capital implications in our strategic, tactical and transactional decision-making. By allocating capital to operating groups, setting and monitoring capital limits and metrics, and measuring the groups' performance against these limits and metrics, we seek to optimize risk-adjusted return to our shareholders, while maintaining a well-capitalized position. This approach is intended to protect our stakeholders from the risks inherent in our various businesses, while still providing the flexibility to deploy resources in support of strategic growth activities.

Refer to the Enterprise-Wide Risk Management section for further discussion of the risks underlying our business.

Governance

The Board of Directors, either directly or in conjunction with its Risk Review Committee, provides ultimate oversight and approval of capital management, including the bank's Capital Management Corporate adequacy assessments. The Board of Directors regularly reviews the bank's capital position and key capital mana the capital adequacy assessment results determined by ICAAP ar The secret landmark is the

Capital Management Committee provides senior managemer nd activities, and along with the Risk Management Committee, the capital required to support the execution of our er and Risk Management are responsible for the design and implementation of our corporate policies and framewo anagement, as well as ICAAP. The Corporate Audit Division, as the third line of defence, verifies adherence to controls and identifies opportunities to strengthen our processes. Refer to the Enterprise-Wide Risk Management Framework section for further discussion.

Regulatory Capital Requirements

Regulatory capital requirements for BMO are determined in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI), which are based on the Basel III framework developed by the Basel Committee on Banking Supervision (BCBS). The current minimum risk-based capital ratios set out in OSFI's Capital Adequacy Requirements (CAR) Guideline are a Common Equity Tier 1 (CET1) Ratio of 4.5%, a Tier 1 Capital Ratio of 6.0% and a Total Capital Ratio of 8.0%. In addition to these minimum capital requirements, OSFI also requires domestic systemically important banks (D-SIBs), including BMO, to hold Pillar 1 and Pillar 2 buffers, which are meant to be used as a normal first response in periods of stress. Pillar 1 buffers include a capital conservation buffer of 2.5%, a D-SIB Common Equity Tier 1 surcharge of 1.0%, and a countercyclical buffer (which can range from 0% to 2.5%, depending on a bank's exposure to jurisdictions that have activated the buffer). Pillar 2 buffers include the domestic stability buffer (DSB), which can range from 0% to 4.0% of risk-weighted assets (RWA) and was set at 3.0% as at October 31, 2023. The buffer level is set twice a year by OSFI, in June and December, but OSFI can make a change any time when needed. Effective November 1, 2023, the DSB increased to 3.5%.

The current minimum Total Loss Absorbing Capacity (TLAC) requirements set by OSFI are a TLAC Ratio of 21.5% of RWA and a TLAC Leverage Ratio of 6.75% as at October 31, 2023.

The current minimum Leverage Ratio set out in OSFI's Leverage Requirements (LR) Guideline is 3.0%. Effective February 1, 2023, D-SIBs were required to meet a 0.5% buffer requirement for the Leverage and TLAC Leverage Ratios, in addition to the minimum requirements.

OSFI's requirements as at October 31, 2023, are summarized in the following table.

(% of risk-weighted assets or leverage exposures)	Minimum capital, leverage and TLAC requirements	Total Pillar 1 Capital buffers (1)	Tier 1 Capital buffer	Domestic stability buffer (2)	Minimum capital, leverage and TLAC requirements including capital buffers	BMO capital, leverage and TLAC ratios as at October 31, 2023
Common Equity Tier 1 Ratio	4.5%	3.5%	na	3.0%	11.0%	12.5%
Tier 1 Capital Ratio	6.0%	3.5%	na	3.0%	12.5%	14.1%
Total Capital Ratio	8.0%	3.5%	na	3.0%	14.5%	16.2%
TLAC Ratio	21.5%	na	na	3.0%	24.5%	27.0%
Leverage Ratio	3.0%	na	0.5%	na	3.5%	4.2%
TLAC Leverage Ratio	6.75%	na	0.5%	na	7.25%	8.1%

(1) The minimum CET1 Ratio requirement of 4.5% is augmented by a total of 3.5% in Pillar 1 Capital buffers, which can absorb losses during periods of stress. Pillar 1 Capital buffers include a capital conservation buffer of 2.5%, a Common Equity Tier 1 surcharge for D-SIBs of 1.0% and a countercyclical buffer, as prescribed by OSFI (immaterial for the fourth quarter of 2023). If a bank's capital ratios fall within the range of this combined buffer, restrictions on discretionary distributions of earnings (such as dividends, share repurchases and discretionary compensation) would ensue, with the degree of such restrictions varying according to the position of the bank's ratios within the buffer range.

(2) Breaches of the DSB will not result in a bank being subject to automatic constraints on capital distributions. In the event of a breach, OSFI would require a remediation plan, and would expect for the plan to be executed in a timely manner. Banks may be required to hold additional regulatory capital buffers that are applicable to Capital, Leverage and TLAC Ratios.

na – not applicable

Regulatory Capital and Total Loss Absorbing Capacity Ratios

The **Common Equity Tier 1 (CET1) Ratio** is calculated as CET1 Capital, which comprises common shareholders' equity, net of deductions for goodwill, intangible assets, pension assets, certain deferred tax assets and other items, which may include a portion of expected credit loss provisions, divided by risk-weighted assets. The CET1 Ratio is calculated in accordance with OSFI's Capital Adequacy Requirements (CAR) Guideline.

The **Tier 1 Capital Ratio** reflects **Tier 1 Capital** divided by risk-weighted assets.

The **Total Capital Ratio** reflects **Total Capital** divided by risk-weighted assets.

The **Leverage Ratio** reflects **Tier 1 Capital** divided by Leverage Exposures (LE), which consist of on-balance sheet items and specified off-balance sheet items, net of specified adjustments.

The **Total Loss Absorbing Capacity (TLAC) Ratio** reflects TLAC divided by risk-weighted assets.

The **TLAC Leverage Ratio** reflects TLAC divided by leverage exposures.

Refer to the Glossary of Financial Terms for definitions of ratios and their components.

Regulatory Capital and Total Loss Absorbing Capacity Elements

BMO maintains a capital structure that is diversified across instruments and tiers in order to provide an appropriate mix of loss absorbency. The major components of regulatory capital and total loss absorbing capacity are summarized as follows:

CET1 Capital

- Common Shareholders' Equity
- May include portion of expected credit loss provisions
- Less regulatory deductions for items such as:
  - Goodwill
  - Intangible assets
  - Defined benefit pension assets
  - Certain deferred tax assets
  - Certain other items

Additional Tier 1 (AT1) Capital

- Preferred shares
- Other AT1 capital instruments
- Less regulatory deductions

Tier 2 Capital

- Subordinated debentures
- May include portion of expected credit loss provisions
- Less regulatory deductions

Other Total Loss Absorbing Capacity (TLAC)

- Other TLAC instruments (including eligible Bail-in debt)
- Less regulatory deductions

Tier 1 Capital

Total Capital

TLAC

OSFI's CAR Guideline includes non-viability contingent capital (NVCC) provisions, which require the conversion of Additional Tier 1 and Tier 2 capital instruments into common shares if OSFI announces that a bank is, or is about to become, non-viable, or if the federal or a provincial government in Canada publicly announces that the bank has accepted, or has agreed to accept, a capital injection or equivalent support to avoid non-viability. Pursuant to the principles set out in the CAR Guideline, a conversion to common shares would respect the hierarchy of claims in liquidation, ensuring that holders of Additional Tier 1 and Tier 2 instruments are entitled to a more favourable economic outcome than existing common shareholders.

Under Canada's Bank Recapitalization (Bail-In) Regime, eligible senior debt issued on or after September 23, 2018 is subject to statutory conversion requirements. Canada Deposit Insurance Corporation has the power to trigger the conversion of bail-in debt into common shares. This statutory conversion supplements NVCC securities, which must be converted in full prior to the conversion of bail-in debt.

Risk-Weighted Assets

Risk-weighted assets (RWA) measure a bank's exposures, weighted for their relative risk and calculated in accordance with the regulatory capital rules prescribed by OSFI, which include standardized and internal ratings or internal model approaches for credit risk and market risk.

We primarily use the Internal Ratings Based (IRB) Approach to determine credit RWA in our portfolio. Effective with the implementation of the Basel III Reforms as at February 1, 2023, the IRB approaches include the Foundation (FIRB) Approach for exposures to financial institutions and large corporate portfolios, and the Advanced (AIRB) Approach for all other exposures. The AIRB Approach applies sophisticated techniques to measure RWA at the exposure level based on sound risk management principles, including estimates of the probability of default (PD), loss given default (LGD) and exposure at default (EAD) risk parameters, as well as term to maturity and asset class type, as prescribed by the OSFI rules. These risk parameters are determined using internal models that leverage historical portfolio data supplemented by benchmarking, as appropriate, and are updated periodically. Validation procedures related to these models are in place in order to quantify and differentiate risks appropriately. The FIRB Approach employs the same internal PD estimates as the AIRB Approach, but LGD and EAD parameters are prescribed by OSFI. Credit risk RWA related to certain Canadian and U.S. portfolios, including the acquired Bank of the West portfolio, are determined under the Standardized Approach using prescribed risk weights based on external ratings, counterparty type or product type. These portfolios reflect current waivers and exemptions to the IRB Approach approved by OSFI. For further discussion of the respective approaches noted above, refer to the Credit and Counterparty Risk – Credit and Counterparty Risk Measurement section.

In fiscal 2023, our market risk RWA was primarily determined using the Internal Models Approach, and the Standardized Approach was used for some exposures. With the implementation of the Basel III Reforms for market risk, effective November 1, 2023, we transitioned to a fully Standardized Approach.

We use the new Standardized Measurement Approach for determining operational risk regulatory capital requirements, which was effective February 1, 2023, as part of the Basel III Reforms implementation.

BMO is subject to a capital floor as prescribed in OSFI's CAR Guideline. In calculating regulatory capital ratios, total RWA must be increased when the capital floor amount calculated under the standardized approaches, multiplied by a capital floor adjustment factor, is higher than a similar calculation using the more risk-sensitive internal modelled approaches, where applicable. Other than during the first quarter of 2023, the capital floor was not operative for BMO in fiscal 2023, following the acquisition of Bank of the West.

Regulatory Capital Developments

Effective November 1, 2023, the DSB has been raised from 3.0% to 3.5% of total RWA. On December 8, 2022, OSFI raised the DSB range of 0% to 2.5% to 0% to 4.0%.

On October 20, 2023, OSFI published the revised CAR Guideline, which will be effective in the first quarter of fiscal 2024. The key revisions reflect heightened regulatory capital requirements for mortgages with growing balances where payments are insufficient to cover the interest component, as well as other changes that provide further clarification on the application of the guideline.

On September 12, 2023, OSFI published the final Parental Stand-Alone (Solo) TLAC Framework for D-SIBs, which will be effective in the first quarter of fiscal 2024. The purpose of the Solo framework is to ensure a non-viable D-SIB has sufficient loss absorbing capacity on a stand-alone legal entity basis to support its resolution, which would, in turn, facilitate an orderly resolution of the D-SIB while minimizing adverse impacts on the stability of the financial sector, ensuring the continuity of critical functions and minimizing taxpayers' exposure to loss. We are well-positioned to meet the new Solo TLAC requirement.

The domestic implementation of Basel III Reforms related to capital, leverage, liquidity and disclosure requirements was effective as of the second quarter of fiscal 2023. Regulatory capital changes in the year under these reforms included revised rules for credit risk and operational risk. The capital floor adjustment factor was set at 65% effective February 1, 2023, rising 2.5% on November 1 of each year to 72.5% in fiscal 2026. Effective February 1, 2023, D-SIBs were required to hold a 0.5% buffer for the Leverage and TLAC Leverage Ratios, in addition to the minimum requirements. Basel III Reforms for market risk and credit valuation adjustment (CVA) risk come into effect in the first quarter of fiscal 2024. With this transition, the determination of market risk capital will shift from a primarily Internal Models Approach to a fully Standardized Approach and capital for CVA risk will also reflect OSFI's standardized rules.

International Financial Reporting Standard 17, *Insurance Contracts* (IFRS 17) becomes effective for our fiscal year beginning November 1, 2023, and we will apply the full retrospective approach where we restate prior periods as if we had always applied IFRS 17. On transition to IFRS 17, we will also change our accounting policy for the measurement of investment properties, recorded in insurance-related assets, under IAS 40, *Investment Property*. For more information, refer to the Future Changes in Accounting Policies section.

These regulatory and accounting changes are expected to have a modest impact on our regulatory capital ratios upon adoption.

Regulatory Capital and Total Loss Absorbing Capacity Review

BMO is well-capitalized, with capital ratios that exceed OSFI's published requirements for large Canadian banks, including a DSB of 3.0%. Our CET1 Ratio was 12.5% as at October 31, 2023, compared with 16.7% as at October 31, 2022. Our CET1 Ratio was elevated at the end of fiscal 2022, primarily driven by fair value management actions related to the acquisition of Bank of the West. The CET1 Ratio decreased from the prior year, primarily as a result of the acquisition and integration of Bank of the West.

Our Tier 1 Capital and Total Capital Ratios were 14.1% and 16.2%, respectively, as at October 31, 2023, compared with 18.4% and 20.7%, respectively, as at October 31, 2022. The Tier 1 Capital and Total Capital Ratios were lower due to the factors impacting the CET1 Ratio, partially offset by a $650 million issuance of institutional preferred shares.

The impact of foreign exchange rate movements on BMO's capital ratios was largely offset. Our investments in foreign operations are primarily denominated in U.S. dollars, and the foreign exchange impact of U.S.-dollar-denominated RWA and capital deductions may result in variability in the bank's capital ratios. We may manage the impact of foreign exchange rate movements on BMO's capital ratios, and did so during fiscal 2023. Any such activities could also impact BMO's book value and return on equity.

Our Leverage Ratio was 4.2% as at October 31, 2023, a decrease from 5.6% as at October 31, 2022, primarily as a result of our acquisition of Bank of the West.

As at October 31, 2023, our TLAC Ratio was 27.0% and our TLAC Leverage Ratio was 8.1%, compared with 33.1% and 10.1%, respectively, as at October 31, 2022.

While the ratios discussed above reflect our consolidated capital base, we conduct business through a variety of corporate structures, including subsidiaries. A framework is in place such that capital and funding are managed appropriately at the subsidiary level.

Following our acquisition of Bank of the West, our subsidiary, BMO Financial Corp. (BFC), as a U.S. bank intermediate holding company, has transitioned from a Category IV to a Category III institution under the Enhanced Prudential Standards issued by the Federal Reserve Board (FRB). This change will require BFC to meet certain heightened regulatory standards related to capital, liquidity and risk management, including complying with single counterparty credit limits. These heightened regulatory standards include a requirement that BFC will now be subject to the Comprehensive Capital Analysis and Review (CCAR) and *Dodd-Frank Act* Stress Test (DFAST) requirements of the FRB on an annual (from biennial) basis, along with other requirements, including biennial company-run stress testing, countercyclical capital buffer and supplementary leverage ratio requirements. We are well-positioned to meet these incremental requirements and do not expect them to have a material impact on our business, financial condition, results of operations or capital position.

BFC was also required to participate in the FRB's 2023 CCAR exercise as a result of our acquisition of Bank of the West. On June 28, 2023, the FRB released its 2023 CCAR and DFAST results, and on July 27, 2023, announced individual large bank capital requirements, which were effective October 1, 2023. For BFC, the FRB determined a CET1 Ratio requirement of 7.8%, including the 4.5% minimum CET1 Ratio and a 3.3% stress capital buffer (SCB). BFC is well-capitalized, with a strong CET1 Ratio of 10.3% as at September 30, 2023.

Regulatory Capital and TLAC (1)

(Canadian $ in millions, except as noted) As at October 31	2023	2022
Common Equity Tier 1 Capital: Instruments and Reserves		
Directly issued qualifying common share capital plus related stock surplus	**23,269**	18,061
Retained earnings	**44,920**	45,117
Accumulated other comprehensive income (and other reserves)	**1,862**	1,552
Goodwill and other intangibles (net of related tax liability)	**(20,899)**	(6,901)
Other common equity Tier 1 capital deductions	**3,762**	3,062
Common Equity Tier 1 Capital (CET1)	**52,914**	60,891
Additional Tier 1 Capital: Instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**6,958**	6,308
Total regulatory adjustments applied to Additional Tier 1 Capital	**(87)**	(78)
Additional Tier 1 Capital (AT1)	**6,871**	6,230
Tier 1 Capital (T1 = CET1 + AT1)	**59,785**	67,121
Tier 2 Capital: Instruments and Provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	**8,082**	8,003
General allowance	**902**	235
Total regulatory adjustments to Tier 2 Capital	**(51)**	(50)
Tier 2 Capital (T2)	**8,933**	8,188
Total Capital (TC = T1 + T2)	**68,718**	75,309
Non-Regulatory Capital Elements of TLAC		
Directly issued qualifying Other TLAC instruments	**45,773**	45,554
Total regulatory adjustments applied to Other TLAC	**(89)**	(200)
Other TLAC	**45,684**	45,354
TLAC (TLAC = TC + Other TLAC)	**114,402**	120,663
Risk-Weighted Assets and Leverage Ratio Exposures		
Risk-Weighted Assets	**424,197**	363,997
Leverage Ratio Exposures	**1,413,036**	1,189,990
Capital Ratios (%)		
Common Equity Tier 1 Ratio	**12.5**	16.7
Tier 1 Capital Ratio	**14.1**	18.4
Total Capital Ratio	**16.2**	20.7
TLAC Ratio	**27.0**	33.1
Leverage Ratio	**4.2**	5.6
TLAC Leverage Ratio	**8.1**	10.1

(1) Calculated in accordance with OSFI's CAR Guideline and LR Guideline, as applicable. Non-qualifying Additional Tier 1 and Tier 2 Capital instruments were phased out at a rate of 10% per year from January 1, 2013 to January 1, 2022.

Our CET1 Capital was $52.9 billion as at October 31, 2023, compared with $60.9 billion as at October 31, 2022. CET1 Capital decreased, as internal capital generation, common shares issuances through a public offering and private placements, and under the Shareholder Dividend Reinvestment and Share Purchase Plan (DRIP) were more than offset by an increase in the capital deductions for goodwill and intangible assets, and acquisition and integration costs related to Bank of the West.

Tier 1 Capital and Total Capital were $59.8 billion and $68.7 billion, respectively, as at October 31, 2023, compared with $67.1 billion and $75.3 billion, respectively, as at October 31, 2022. The decrease in Tier 1 Capital was primarily due to the factors impacting CET1 Capital, partially offset by an issuance of institutional preferred shares. Total Capital was lower, primarily due to the factors impacting Tier 1 Capital.

Risk-Weighted Assets

RWA were $424.2 billion as at October 31, 2023, an increase from $364.0 billion as at October 31, 2022. Credit Risk RWA were $349.9 billion as at October 31, 2023, an increase from $295.5 billion as at October 31, 2022, primarily due to the inclusion of the assets of Bank of the West, partially offset by the impact of the implementation of the Basel III Reforms and risk transfer transactions. As noted above, the impact of foreign exchange rate movements is largely offset in the CET1 Ratio. Market Risk RWA were $17.0 billion as at October 31, 2023, an increase from $13.5 billion as at October 31, 2022, primarily attributable to portfolio changes, including business growth, and market volatility during the year. Operational Risk RWA were $57.4 billion as at October 31, 2023, an increase from $42.4 billion as at October 31, 2022, primarily due to the acquisition of Bank of the West and the impact of legal provisions. The capital floor was not operative at October 31, 2023, compared with a floor adjustment of $12.6 billion reflected in our RWA as at October 31, 2022.

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(Canadian $ in millions) As at October 31	2023 Total Exposure (1) (2)	2023 Average risk weight	2023 RWA (1) Standardized	2023 RWA (1) IRB FIRB	2023 RWA (1) IRB AIRB	2023 RWA (1) Total	2022 Total RWA (5)
Credit Risk							
Wholesale							
Corporate, including specialized lending	**406,703**	**44.4%**	**36,787**	**71,214**	**72,522**	**180,523**	137,272
Corporate small and medium-sized enterprises	**33,830**	**61.7%**	**4,830**	**52**	**15,987**	**20,869**	31,671
Sovereign	**261,799**	**1.6%**	**180**	**–**	**3,901**	**4,081**	4,818
Bank	**23,111**	**20.9%**	**214**	**4,623**	**–**	**4,837**	4,113
Retail							
Residential mortgages, excluding home equity line of credit	**175,473**	**10.8%**	**4,559**	**–**	**14,308**	**18,867**	11,076
Home equity line of credit	**74,487**	**10.6%**	**982**	**–**	**6,895**	**7,877**	5,915
Qualifying revolving retail	**49,006**	**21.9%**	**690**	**–**	**10,048**	**10,738**	7,408
Other retail, excluding small and medium-sized enterprises	**46,276**	**57.6%**	**17,765**	**–**	**8,892**	**26,657**	16,099
Retail small and medium-sized enterprises	**19,459**	**62.4%**	**3,407**	**–**	**8,733**	**12,140**	11,860
Equity	**11,101**	**131.3%**	**14,574**	**–**	**–**	**14,574**	11,956
Trading book	**50,763**	**24.5%**	**5,055**	**6,478**	**888**	**12,421**	11,036
Securitization	**81,947**	**15.4%**	**1,467**	**–**	**11,160**	**12,627**	9,530
Other credit risk assets – non-counterparty managed assets	**21,091**	**112.1%**	**23,641**	**–**	**–**	**23,641**	18,580
Scaling factor for credit risk assets under AIRB Approach (3)	**na**	**na**	**na**	**na**	**na**	**na**	14,189
Total Credit Risk	**1,255,046**	**–**	**114,151**	**82,367**	**153,334**	**349,852**	295,524
Market Risk	**–**	**–**	**2,131**	**–**	**14,850**	**16,981**	13,522
Operational Risk	**–**	**–**	**57,364**	**–**	**–**	**57,364**	42,353
Risk-Weighted Assets before floor	**1,255,046**	**–**	**173,646**	**82,367**	**168,184**	**424,197**	351,399
Floor adjustment (4)	**–**	**–**	**–**	**–**	**–**	**–**	12,598
Total Risk-Weighted Assets	**1,255,046**	**–**	**173,646**	**82,367**	**168,184**	**424,197**	363,997

(1) Exposure and RWA are grouped by the obligor's asset class.
(2) Exposure represents exposure at default (EAD) after the application of credit risk mitigation and the credit conversion factor for undrawn exposures.
(3) In fiscal 2022, RWA amounts for credit risk under the Advanced Internal Ratings Based (AIRB) Approach were subject to a 6% scaling factor. This scaling factor is no longer effective as of the second quarter of fiscal 2023, following the implementation of Basel III Reforms.
(4) The bank is subject to capital floor requirements as prescribed in OSFI's CAR Guideline. Total RWA is increased by a floor adjustment amount, which is calculated based on the standardized methodology. The capital floor was not operative at October 31, 2023.
(5) Prior periods have been reclassified to conform with the current period's presentation.
na – not applicable

Economic Capital

Economic capital is an expression of the enterprise's capital demand requirement relative to its view of the economic risks in its underlying business activities. It represents management's estimation of the likely magnitude of economic losses that could occur should severely adverse situations arise. Economic loss is the loss in economic or market value incurred over a specified time horizon at a defined confidence level, relative to the expected loss over the same time horizon. Economic capital is calculated for various ty… et (trading and non-trading), operational, business and insurance, based on a one-year time horizon using a defined…

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Economic Capital and RWA by Operating Grou…

(As at October 31, 2023)

BMO F…

Operating Groups	Canadian Personal and Commercial Banking	U.S. Personal and Commercial Banking	BMO Wealth Management	BMO Capital Markets	Corporate Services
Economic Capital by Risk Type (%)					
Credit	71%	80%	32%	57%	75%
Market	8%	5%	28%	24%	25%
Operational/Other	21%	15%	40%	19%	–
RWA by Risk Type (Canadian $ in millions)					
Credit	89,990	146,561	20,487	70,588	22,226
Market	–	3	91	16,887	–
Operational	19,010	17,559	8,926	11,869	–

Capital Management Activities

During fiscal 2023, we issued approximately 28.3 million common shares through a public offering and private placements to align our capital position with increased regulatory requirements and for general corporate purposes. We also issued approximately 14.2 million common shares through the Shareholder Dividend Reinvestment and Share Purchase Plan (DRIP) and the exercise of stock options. In addition, we issued 1.2 million common shares for the acquisition of Radicle Group Inc.

During fiscal 2023, we completed the issuances and redemptions of Tier 1 and Tier 2 Capital instruments, outlined in the table below.

Capital Instrument Issuances and Redemptions

As at October 31, 2023	Issuance or redemption date	Number of shares (in millions)	Balance (Canadian $ in millions, except as noted)
Common shares issued		43.8	$ 5,197
Tier 1 Capital			
Issuance of Non-Cumulative 5-Year Fixed Rate Reset Class B Preferred Shares, Series 52	January 31, 2023	0.65	$ 650
Tier 2 Capital			
Issuance of Medium-Term Notes, Series M, First Tranche	September 7, 2023		$ 1,150
Redemption of U.S. 4.338% Subordinated Notes	October 5, 2023		USD 850

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Outstanding Shares and NVCC Instruments

As at October 31	Number of shares or dollar amount (in millions)	Dividends declared per share 2023	Dividends declared per share 2022
Common shares	721	**$ 5.80**	$ 5.44
Class B Preferred shares			
Series 27*	$ 500	**$ 0.96**	$ 0.96
Series 29*	$ 400	**$ 0.91**	$ 0.91
Series 31*	$ 300	**$ 0.96**	$ 0.96
Series 33*	$ 200	**$ 0.76**	$ 0.76
Series 44*	$ 400	**$ 1.21**	$ 1.21
Series 46*	$ 350	**$ 1.28**	$ 1.28
Series 50*	$ 500	**$73.73**	$24.64
Series 52*	$ 650	**$57.52**	–
Additional Tier 1 Capital Notes*			
4.800% Additional Tier 1 Capital Notes	US$ 500	**na**	na
4.300% Limited Recourse Capital Notes, Series 1 (1)	$1,250	**na**	na
5.625% Limited Recourse Capital Notes, Series 2 (1)	$ 750	**na**	na
7.325% Limited Recourse Capital Notes, Series 3 (1)	$1,000	**na**	na
Medium-Term Notes* (2)			
3.803% Subordinated Notes	US$1,250	**na**	na
Series J – First Tranche	$1,000	**na**	na
Series J – Second Tranche	$1,250	**na**	na
Series K – First Tranche	$1,000	**na**	na
3.088% Subordinated Notes	US$1,250	**na**	na
Series L – First Tranche	$ 750	**na**	na
Series M – First Tranche	$1,150	**na**	na
Stock options			
Vested	2.8		
Non-vested	3.6		

* Convertible into common shares.

(1) Convertible into common shares by virtue of recourse to the Preferred Shares Series 48, Preferred Shares Series 49 and Preferred Shares Series 51, respectively. Refer to Note 16 of the audited annual consolidated financial statements for conversion details.

(2) Note 15 of the audited annual consolidated financial statements includes details on the NVCC Medium-Term Notes.

na – not applicable

Note 16 of the audited annual consolidated financial statements includes details on share capital and other equity instruments.

If an NVCC trigger event were to occur, NVCC instruments would be converted into BMO common shares pursuant to automatic conversion formulas, with the conversion price based on the greater of: (i) a floor price of $5.00; and (ii) the current market price of BMO common shares at the time of the trigger event (calculated using a 10-day weighted average). Based on a floor price of $5.00, these NVCC instruments would be converted into approximately 4.0 billion BMO common shares, assuming no accrued interest and no declared and unpa

Further details on subordinated debt and share capital are provided in Notes 15 and 16 of the audi tatements.

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Dividends

Dividends per common share declared in fiscal 2023 totalled $5.80, an increase of 7% from the prior year. Annual dividends declared represented 103% of reported net income available to common shareholders on a last twelve-month basis, primarily reflecting the impact of Bank of the West. On an adjusted basis, annual dividends declared represented 49% of adjusted net income available to common shareholders.

Our target dividend payout range (common share dividends as a percentage of net income available to shareholders, less preferred share dividends and distributions on other equity instruments, based on earnings over the last twelve months) is 40% to 50%, providing shareholders with a competitive dividend yield. Our target dividend payout range seeks to provide shareholders with stable income, while retaining sufficient earnings to support anticipated business growth, fund strategic investments and support capital adequacy.

At year-end, our common shares provided an annualized dividend yield of 6% based on the year-end closing share price. On December 1, 2023, we announced that the Board of Directors had declared a quarterly dividend on common shares of $1.51 per share, an increase of $0.04 per share or 6% from the prior year. The dividend is payable on February 27, 2024 to shareholders of record on January 30, 2024.

Shareholder Dividend Reinvestment and Share Purchase Plan

Common shareholders may elect to have their cash dividends reinvested in common shares of BMO, in accordance with the DRIP.

During fiscal 2023, common shares to supply the DRIP were issued from treasury at a 2% discount from the then-current market price. Such shares will continue to be issued from treasury at a 2% discount until further notice. During fiscal 2022, common shares to supply the DRIP were issued from treasury at a 2% discount from the then-current market price except in the first quarter, when common shares to supply the DRIP were purchased on the open market.

Eligible Dividends Designation

For the purposes of the *Income Tax Act (Canada)* or any similar provincial and territorial legislation, BMO designates all dividends paid or deemed to be paid on both its common and preferred shares as "eligible dividends", unless indicated otherwise.

Caution
This Enterprise-Wide Capital Management section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

Off-Balance Sheet Arrangements

We enter into a number of off-balance sheet arrangements in the normal course of operations, and these include structured entities (SEs), credit instruments and guarantees.

Structured Entities and Securitization

We carry out certain business activities through arrangements involving SEs, using them to obtain sources of liquidity by securitizing certain of our financial assets, to secure customer transactions, or to pass our credit risk exposure to holders of the vehicles' securities. For example, we enter into transactions with SEs in which we transfer assets, including mortgage loans, mortgage-backed securities, credit card loans, real estate lines of credit, auto loans and equipment loans, in order to obtain alternate sources of funding or as part of our trading activities. Note 6 of the audited annual consolidated financial statements describes the loan securitization activities carried out through third-party programs such as the Canada Mortgage Bond Program. Note 7 of the audited annual consolidated financial statements provides further details of our interests in both consolidated and unconsolidated SEs. Under IFRS, we consolidate a SE if we control the entity. We consolidate our own securitization vehicles, certain capital and funding vehicles, and other structured entities created to meet our customers' needs, as well as our own. We do not consolidate our customer securitization vehicles, certain capital vehicles, various BMO-managed funds or various other SEs where investments are held. The acquisition of Bank of the West had a nominal impact on our SEs and securitization profile. Further details on our customer securitization vehicles are provided below.

BMO-Sponsored Securitization Vehicles

We sponsor various vehicles that fund assets originated either by us (which are then securitized through a bank securitization vehicle) or by our customers (which are then securitized through three Canadian customer securitization vehicles and one U.S. customer securitization vehicle). We earn fees for providing services related to these customer securitization vehicles, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicles. These fees totalled approximately $149 million in fiscal 2023 ($140 million in fiscal 2022).

Customer Securitization Vehicles

Our customer securitization vehicles provide customers with access to financing either from us or from the asset-backed commercial paper (ABCP) markets. Customers sell either their assets or an interest in their assets into these vehicles, which then issue ABCP either to investors or to us, in order to fund the purchases. The sellers remain responsible for servicing the transferred assets and are first to absorb any losses realized on those assets. We are not responsible for servicing or absorbing the first loss and none of the sellers are affiliated with BMO.

Our exposure to potential losses arises from the purchase of ABCP issued by the vehicles, any related derivative contracts entered into with the vehicles, and the liquidity support provided to the market-funded vehicles. We use the credit adjudication process in deciding whether to enter into these arrangements, just as we do when extending credit in the form of a loan.

Three of these customer securitization vehicles are market-funded, while the fourth is funded directly by the bank. We do not control these entities and therefore they are not consolidated. Further information on the consolidation of customer securitization vehicles is provided in Note 7 of the audited annual consolidated financial statements.

The market-funded vehicles had a total of $12.2 billion of ABCP outstanding as at October 31, 2023 ($11.0 billion in 2022). The ABCP issued by the Canadian market-funded vehicles is rated R-1 (high) by DBRS and P1 by Moody's, and the ABCP issued by the U.S. market-funded vehicle is rated A1 by S&P and P1 by Moody's. Our holdings of ABCP, as distributing agent of ABCP issued by the market-funded vehicles, totalled $518 million as at October 31, 2023 ($573 million in 2022).

We provide liquidity facilities to the market-funded vehicles, which may require that we provide additional financing to the vehicles should certain events occur. The total committed and undrawn amount under these liquidity facilities and undrawn amounts of the BMO funded vehicles as at October 31, 2023 totalled $19.8 billion ($18.4 billion as at October 31, 2022). This amount comprises part of the commitments outlined in Note 24 of the audited annual consolidated financial statements.

The assets of each of these market-funded vehicles consist primarily of exposures to diversified pools of automobile-related receivables and conventional residential mortgages in Canada, and automobile-related receivables and equipment loans in the United States. These two asset classes represent 63% (66% in 2022) in Canada, and 86% (88% in 2022) in the United States, of the aggregate assets of their respective vehicles as at October 31, 2023.

Credit Instruments

To meet the financial needs of our clients, we use a variety of off-balance sheet credit instruments. These include guarantees and standby letters of credit, which represent our obligation to make payments to third parties on behalf of a customer if the customer is unable to make the required payments or meet other contractual requirements. We also write documentary and commercial letters of credit, which represent agreements to honour drafts presented by a third party upon completion of specified activities. Credit commitments are off-balance sheet arrangements that represent our commitment to customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to certain conditions.

There are a large number of credit instruments outstanding at any time. Our customers are broadly diversified, and we do not anticipate events or conditions that would cause a significant number of customers to fail to perform in accordance with the terms of their contracts. We use the credit adjudication process in deciding whether to enter into these arrangements, just as we do when extending credit in the form of a loan. We monitor off-balance sheet credit instruments in order to avoid undue concentrations in any geographic region or industry.

The maximum amount payable by BMO in relation to these credit instruments was $250 billion as at October 31, 2023 ($228 billion as at October 31, 2022). However, this amount is not representative of our likely credit exposure or the liquidity requirements for these instruments, as it does not take into account customer behaviour, which suggests that only a portion of our customers would utilize the facilities related to these instruments, nor does it take into account any amounts that could be recovered under recourse and collateral provisions.

For the credit commitments outlined in the preceding paragraphs, in the absence of an event that triggers a default, early termination by BMO may result in a breach of contract.

Further information on these instruments can be found in Note 24 of the audited annual consolidated financial statements.

Guarantees

Guarantees include contracts under which we may be required to make payments to a counterparty based on changes in the value of an asset, liability or equity security that the counterparty holds. Contracts under which we may be required to make payments if a third party does not perform according to the terms of a contract, and contracts under which we provide indirect guarantees of indebtedness, are also considered guarantees. In the normal course of business, we enter into a variety of guarantees, including standby letters of credit, backstop and other liquidity facilities, and derivatives contracts or instruments (including, but not limited to, credit default swaps), as well as indemnification agreements.

The maximum amount payable by BMO in relation to these guarantees was $58 billion as at October 31, 2023 ($54 billion as at October 31, 2022). However, this amount is not representative of our likely exposure, as it does not take into account customer behaviour, which suggests that only a portion of the guarantees would require us to make any payments, nor does it take into account any amounts that could be recovered under recourse and collateral provisions.

For a more detailed discussion of these arrangements, refer to Note 24 of the audited annual consolidated financial statements.

Caution

This Off-Balance Sheet Arrangements section contains forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements.

Enterprise-Wide Risk Management

As a diversified financial services company providing banking, wealth management, capital markets and insurance services, BMO is exposed to a variety of risks that are inherent in each of these business activities. A disciplined and integrated approach to managing risk is fundamental to the success of our operations. Our risk management framework provides independent risk oversight across the enterprise and is integral to building competitive advantage.

Enterprise-Wide Risk Management outlines BMO's approach to managing the key financial risks and other related risks that are inherent in these business activities, as discussed in the following sections:

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100 Liquidity and Funding Risk
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113 Legal and Regulatory Risk
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118 Reputation Risk

Text and tables presented in a blue-tinted font in the Enterprise-Wide Risk Management section of the MD&A form an integral part of the 2023 audited annual consolidated financial statements. They present required disclosures as set out by the International Accounting Standards Board in IFRS 7, *Financial Instruments – Disclosures,* which permits cross-referencing between the notes to the consolidated financial statements and the MD&A. Refer to Notes 1 and 5 of the audited annual consolidated financial statements.

Risks That May Affect Future Results

Top and Emerging Risks That May Affect Future Results

Evolving internal and external events may have an impact on BMO's overall risk profile. These events have the potential to affect our business, the results of our operations and our financial condition. Our risk management process involves proactively identifying, assessing, managing, monitoring and reporting on risks arising from these events. Risks that are identified are brought forth to several forums for discussion with the Board of Directors, senior management and business leaders, incorporating both bottom-up and top-down approaches. Risks are examined and assessed by scenario analysis. Action plans that address our exposure to certain events are developed based on these risk assessments.

The following risks are considered to have the potential to materially impact BMO's financial results, operational efficiency, strategic direction or reputation.

General Economic Conditions

The general economic conditions prevailing in Canada, the United States and other jurisdictions in which we conduct business affect our earnings. The Canadian and U.S. economies slowed in the past year in response to higher interest rates, but have shown some resilience as a result of high levels of household savings, pent-up demand, expansionary fiscal policies and, in Canada, robust population growth. The labour market remains healthy, with some recent signs of softening. Inflation has moderated, although underlying price pressures persist. The economy faces headwinds from high interest rates and high levels of household indebtedness in Canada, as well as the conflicts in Ukraine and the Middle East, trade disputes with China, diplomatic tensions between Canada and India, and other global geopolitical risks. The possibility that policy rates could rise further and remain high for an extended period has driven longer-term borrowing costs to multi-decade highs, which could lead to higher loan provisions, lower levels of loan demand and stronger deposit pricing competition, with potential impacts on net interest income. These factors represent potential risks for market stability and economic growth. Refer to the Geopolitical Risk and Escalating Trade Disputes section and the Inflation section for further discussion of these risks.

Management regularly monitors the economic environment in which we operate, in order to identify significant changes in key economic indicators, so that we can assess BMO's portfolio and business strategies, and develop contingency plans to address any adverse developments.

Cyber and Cloud Security Risk

Our exposure to cyber security risk arises from the ever-increasing reliance of our business operations on internet and cloud technologies, coupled with a hybrid work environment and extensive dependence on advanced digital technologies to process data. Heightened geopolitical tensions are also contributing to increasing global exposures to cyber security risks. These risks include the threat of data loss, which could lead to exposure of customer or employee information, as well as identity theft and fraud. Ransomware or denial of service attacks could result in system failure and disruption of services. Threat campaigns are becoming better organized and more sophisticated, including an increase in reported data breaches, often occurring through third-party suppliers, that can negatively impact a company's brand and reputation, as well as customer retention and acquisition. At BMO, our response includes investing in our Financial Crimes Unit and technological infrastructure, equipping our team to detect and address cyber security threats across North America, Europe and Asia in order to help keep our customers' and employees' data secure.

Technology Resiliency Risk

Heightened exposure to technology resiliency risk is leading to new and more expansive regulatory requirements related to operational resilience, challenging banks to extend their programs beyond disaster recovery and business continuity activities. New regulatory expectations include the need to be predictive and respond proactively to internal and external threats of disruption.

Technology resiliency is critical to providing our customers with a smooth online experience across our digital channels. Given the extent to which our customers, employees and suppliers are increasingly reliant on technology platforms and the Internet of Things to manage and support their personal, business and investment banking activities, it is important that we maintain platforms that can function at high levels of operational reliability and resilience, particularly with respect to business-critical systems.

Third-Party Risk

Our use of third-party arrangements continues to expand, helping us to deliver innovative solutions across the bank and for our clients. Failure to effectively manage these third-party arrangements exposes BMO to the risk that data may be compromised or the delivery of critical products and services may be disrupted. In addition, third-party service providers may use sub-contractors, introducing an additional layer of complexity for oversight. Any concentration of third parties will also heighten exposures to existing risks of disruption arising from other events, such as natural disasters or geopolitical events.

Effective risk management and oversight are important for third-party arrangements. This includes determining the inherent risk and criticality of third-party arrangements, conducting appropriate due diligence, as well as ongoing monitoring and oversight of the third-party service provider. At BMO, we continue to enhance our third-party risk management practices, aligning them with regulatory expectations and strengthening operational resilience across the supply chain.

Geopolitical Risk and Escalating Trade Di The secret object #4 is a

The Russia-Ukraine conflict has had a significant global impact, inc d the erosion of business confidence. The financial, energy and technology sanctions imposed on Russia by Ukraine's hortages, particularly the supply of energy, across the global economy. This could result in a long-term political, economic and military standoff between Western countries and Russia.

Canadian and U.S. relations with China remain fragile. Taiwan continues to be a volatile issue between the United States and China, as China is committed to unification. A U.S. commitment to expanding trade ties with Taiwan may further increase the tension. In addition, the strategic competition between the two countries is driving greater global fragmentation, as both seek to reinforce their autonomy, limit any vulnerabilities and insulate their technology sectors. This could adversely affect business investment, and could prove especially problematic for commodity-producing countries such as Canada that rely on a large export market. Recent Canada-China disputes over political interference are further evidence of this antagonism. More recently, diplomatic relations between Canada and India have frayed, threatening to disrupt trade flows and tourism between the two countries and limit the number of international students applying to study in Canada. The Middle East crisis has raised tensions significantly in the region, and the risk of potential for escalation could drive up energy prices, unsettle financial markets and slow global growth even further, which would have a direct impact on our customers.

We actively monitor global and North American trends and continually assess our businesses in the context of these trends. Our lending portfolio has limited direct exposure outside North America; however, our customers rely on global trade and sustained economic growth. To mitigate exposure to geopolitical risk, we maintain a diversified portfolio that we monitor continually, in addition to contingency plans that are intended to prepare BMO for any possible adverse developments. Our portfolios, business plans and capital adequacy are stress tested against severely adverse scenarios arising from trade-related shocks, and we build contingency plans and mitigation strategies to address and offset the consequences of possible adverse political and economic developments.

BMO's credit exposure by geographic region is set out in Tables 4, 5 and 8 to 10 in the Supplemental Information and in Note 4 of the audited annual consolidated financial statements.

Climate Change

BMO is exposed to risks related to environmental conditions and extreme weather events that could potentially disrupt our operations, impact our customers and counterparties, and result in lower earnings and higher losses. Factors contributing to heightened environmental risks include the impacts of climate change and the continued intensification of development in areas of greater environmental sensitivity. Business continuity management plans provide us with the roadmap and tools that support the restoration, maintenance and management of critical operations and processes in the event of a business disruption.

BMO is also exposed to risks related to borrowers that may experience financial losses or rising operating costs as a result of climate-related litigation or policies, such as carbon emissions pricing, or that may experience a decline in revenue as new and emerging technologies disrupt or displace demand for certain commodities, products and services. As a global bank, our strategic priority is to be our clients' lead partner in the transition to a net zero world, delivering on our commitments to sustainable financing and responsible investing, supported by the BMO Climate Institute and our dedicated Energy Transition Group.

Legal and regulatory, business or reputation risks could arise from actual or perceived actions, or inaction, in our operations and those of our customers in relation to climate change and other environmental and social risk issues, or our disclosures related to these matters. Risks related to these issues could also affect our customers, suppliers or other stakeholders, which could give rise to new business or reputation risks. Globally, climate-related litigation or enforcement measures could arise from new and more stringent obligations to manage and report climate-related risks.

Refer to the Environmental and Social Risk section for further discussion of these risks.

Canadian Housing Market and Consumer Leverage

The level of household debt in Canada is high, making the economy vulnerable to economic shocks. The housing market rebounded after the Bank of Canada paused interest rate hikes in early 2023, which together with elevated inflation and a pickup in economic activity, prompted the Canadian central bank to raise rates twice over the summer. While the Bank of Canada may refrain from raising rates further, the housing market recovery will likely be held back by the persistent lack of affordability, notably in Ontario and British Columbia. However, high rates of immigration should provide underlying support to housing market activity and prices.

Housing affordability remains challenging, especially in the Greater Toronto Area (GTA) and Greater Vancouver Area (GVA) and their surrounding regions, and represents an ongoing barrier to entry for potential first-time homebuyers. Inflation and higher interest rates are putting a strain on household budgets despite historically low unemployment rates, which is reducing overall household purchasing power. Further increases in interest rates could add more stress to the financial situation of some households as their fixed payment variable-rate mortgage or fixed-rate mortgage is renewed. To address this risk, BMO has proactively reached out to customers, directly and through our website, to inform them of the potential impact of higher interest rates and provide options for increasing their scheduled payments before renewal.

A decline in home sales activity, particularly in the GTA and GVA, would impact mortgage origination volumes, while lower property values could result in higher provisions for credit losses. BMO's prudent lending practices, which include the application of additional underwriting scrutiny and regulatory stress testing at origination on higher-value and higher loan-to-value transactions, and the setting and close monitoring of regional, property type and customer segment concentration limits, support the soundness of BMO's Canadian real estate lending portfolio. Further, stress test analysis suggests that even significant price declines and extremely challenging economic conditions would result in manageable losses, primarily due to insurance coverage and the significant level of equity held by owners with seasoned loans. Credit losses may be mitigated by relatively low unemployment and rising wages, which are expected to support consumer spending capacity in the face of high inflation.

Inflation

The inflation rate has begun to moderate after reaching four-decade highs in 2022, amid lower commodity prices and improved global supply chains. However, it is not expected to return to the 2% target of central banks until 2025. Elevated inflation is having an impact on the operations of our clients, and could have a negative effect on our earnings through higher provisions for credit losses and higher operating costs. We monitor inflationary pressures in North America closely and assess potential effects on our portfolios, interest margins and operating costs. Refer to the Canadian Housing Market and Consumer Leverage section and the General Economic Conditions section for further discussion of these risks.

Technological Innovation and Competition

Emerging technologies continue to evolve rapidly, creating opportunities to drive revenue growth and operating efficiencies in the financial sector. We are committed to the prudent and responsible adoption of emerging new technologies in order to have a competitive advantage and meet our customers' expectations, as we deliver personalized on-demand banking and new digital products and services. In alignment with BMO's Digital First strategy, we are continuing to invest in risk management technology that can also enhance the customer experience, streamline processes and reduce complexity. We continue to monitor the evolving external environment to identify emerging technologies, practices and regulations in the financial services industry. Our emerging technologies risk management framework is now a component of Technology Risk Management, supporting prudent and responsible innovation and adoption. We are also developing and deploying new talent strategies to attract and retain employees with the skills essential to maintaining BMO's global competitive position.

Other Factors That May Affect Future Results

Fiscal and Monetary Policies and Other Economic Conditions in the Countries in which BMO Conducts Business

Fiscal and monetary policies and other economic conditions prevailing in Canada, the United States and other jurisdictions in which we do business may impact profitability and heighten economic uncertainty in specific businesses and markets, which may in turn affect our customers and counterparties, reduce profitability and contribute to a greater risk of default. Higher levels of business debt following the pandemic may give rise to future vulnerabilities that could impact our markets and our operating results. Interest rate fluctuations could have an impact on our earnings, the value of our investments, the credit quality of our loans to customers and counterparty exposure, as well as the capital markets that we access.

Fluctuations in the value of the Canadian dollar relative to other currencies have affected, and could continue to affect, the business operations and results of clients with significant earnings or input costs denominated in foreign currencies. Our investments in operations outside of Canada are primarily denominated in U.S. dollars, and the foreign exchange impact on our U.S.-dollar-denominated risk-weighted assets and capital deductions may result in variability in our capital ratios. Refer to the Enterprise-Wide Capital Management section for further discussion of these risks. The value of the Canadian dollar relative to the U.S. dollar will also affect the contribution of U.S. operations to Canadian-dollar profitability.

Hedging positions may be taken to manage interest rate exposures and foreign exchange impacts, and to partially offset the effects of Canadian dollar/U.S. dollar exchange rate fluctuations on the bank's financial results. Refer to the Foreign Exchange section and the Market Risk section for a more complete discussion of our exposure to foreign exchange and interest rate risk.

Regulatory Requirements

The financial services industry is highly regulated, and BMO has experienced increasing complexity in regulatory requirements and expectations, as governments and regulators around the world continue to pursue major reforms intended to strengthen the stability of the financial system and protect key markets and participants. These may lead to further increases in regulatory capital or liquidity requirements and additional compliance costs, which could lower returns and affect growth. These reforms could also affect the cost and availability of funding and the level of the bank's market-making activities. Regulatory reforms may also impact fees and other revenues for certain operating groups. In addition, differences in the laws and regulations enacted by a range of national regulatory authorities may offer advantages to our international competitors, which could affect our ability to compete. We monitor such developments, and other potential changes, so that we are well-positioned to respond and implement any necessary changes.

Following our acquisition of Bank of the West, our subsidiary, BMO Financial Corp. (BFC), as a U.S. bank intermediate holding company, has transitioned from a Category IV to a Category III institution under the Enhanced Prudential Standards issued by the Federal Reserve Board. This change will require BFC to meet certain heightened regulatory standards. Additional information regarding regulatory requirements that now apply to BFC is set out in the Enterprise-Wide Capital Management section.

Failure to comply with applicable legal and regulatory requirements and expectations could result in legal proceedings, financial losses, regulatory sanctions and fines, enforcement actions, criminal convictions and penalties, restrictions on or an inability to execute certain business strategies, a decline in investor and customer confidence, and damage to our reputation. Refer to the Legal and Regulatory Risk section for a more complete discussion of BMO's management of legal and regulatory risk.

Tax Legislation and Interpretations

Legislative changes and changes in tax policy, including their interpretation by tax authorities and the courts, may impact earnings. Tax laws, as well as interpretations of tax laws and policy by tax authorities, may change as a result of efforts by the Canadian and U.S. federal governments, other G20 governments and the Organisation for Economic Co-operation and Development (OECD) to increase taxes, broaden the tax base globally and improve tax-related reporting. For example, the Canadian government has released proposed legislation to adopt the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting two-pillar plan (Pillar 2) for international tax reform, which will levy a 15% minimum tax on operations globally. For further discussion, refer to the Regulatory Developments – New Canadian Tax Measures section.

Changes to Business Portfolio

On occasion, BMO may acquire companies, businesses and assets as part of its overall business strategy. We conduct thorough due diligence before completing these acquisitions. However, some acquisitions, including Bank of the West, may not perform in accordance with our financial or strategic objectives or expectations. We may be subject to regulatory and shareholder approvals to successfully complete an acquisition, and it may not be possible to establish when, if or on what terms the necessary approvals will be granted. Changes in the competitive and economic environment, as well as other factors, may result in reductions in revenue or profitability, while higher than anticipated integration costs and failure to realize anticipated cost savings after an acquisition could also adversely affect earnings. Integration costs may increase because of regulatory costs related to an acquisition, operational loss events, other unanticipated expenses that were not identified in the due diligence process, or demands on management time that are more significant than anticipated, as well as unexpected delays in implementing certain plans that may in turn lead to delays in attaining full integration. Successful post-acquisition performance depends on retaining the clients and key employees of acquired companies and businesses and on integrating key systems and processes without disruption.

BMO also evaluates potential dispositions of assets and businesses that may no longer meet strategic objectives. When we sell assets or withdraw from a business, we may experience difficulty in finding buyers or devising alternative exit strategies on acceptable terms or in a timely manner, which could delay the achievement of strategic objectives. We may also dispose of assets or a business on terms that are less favourable than anticipated or lead to adverse operational or financial impacts, or greater disruption than expected, and the impact of the divestiture on revenue growth may be greater than projected. Dispositions may be subject to the satisfaction of conditions and the granting of governmental or regulatory approvals on acceptable terms that, if not satisfied or obtained, may prevent the completion of a disposition as intended, or at all.

Critical Accounting Estimates, Judgments and Accounting Standards

BMO prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Changes that the International Accounting Standards Board makes from time to time may materially affect the way we record and report financial results. Future changes in accounting policies are discussed in the Future Changes in Accounting Policies section, as well as in Note 1 of the audited annual consolidated financial statements.

The application of IFRS requires management to make significant judgments and estimates that affect the carrying amounts of certain assets and liabilities, certain amounts reported in net income and other related disclosures. In making these judgments and estimates, we rely on the best information available at the time. However, it is possible that circumstances may change, new information may become available or models may prove to be imprecise.

BMO's financial results could be affected for the period during which any such new information or change in circumstances becomes apparent, and the extent of the impact could be significant. More information is included in the Critical Accounting Estimates and Judgments section.

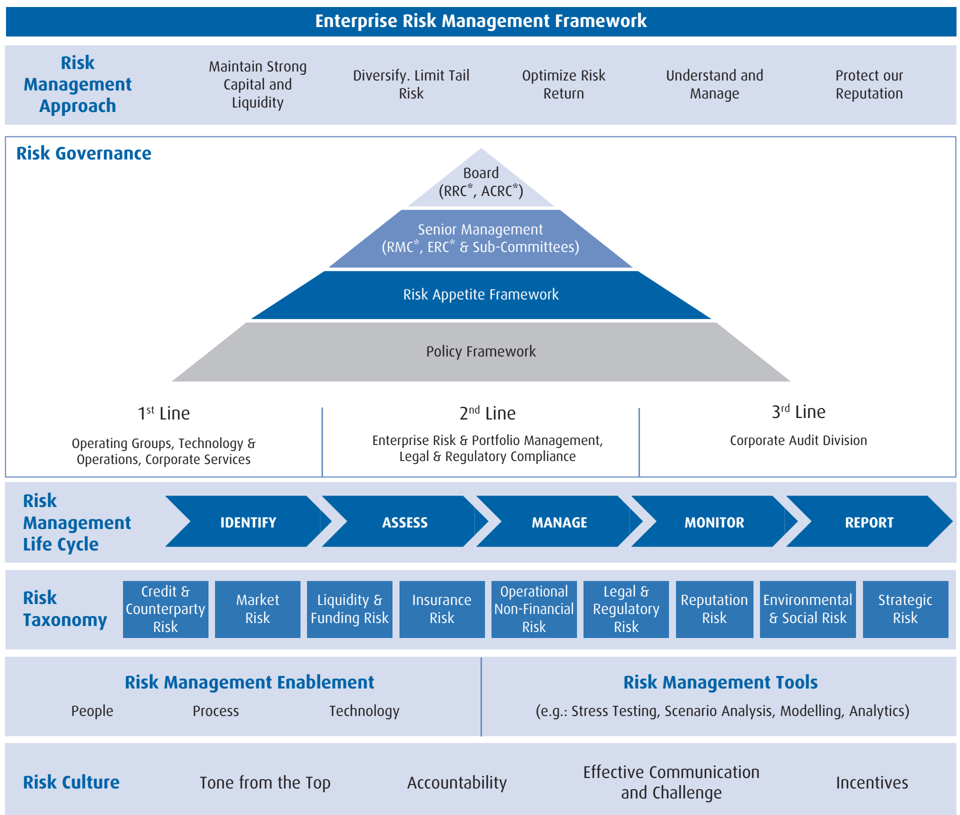
Caution

The Risks That May Affect Future Results section and the remainder of this Enterprise-Wide Risk Management section contain forward-looking statements. Please refer to the Caution Regarding Forward-Looking Statements. Other factors beyond BMO's control that may affect its future results are noted in the Caution Regarding Forward-Looking Statements. BMO cautions that the preceding discussion of risks that may affect future results is not exhaustive.

Enterprise-Wide Risk Management Framework

BMO's integrated and disciplined approach to risk management is fundamental to the success of our business. Our Enterprise Risk and Portfolio Management (ERPM) group oversees the implementation and operation of the Enterprise-Wide Risk Management Framework (ERMF), and provides independent review and oversight across the enterprise on risk-related issues, in order to enable prudent and measured risk-taking that is integrated with business strategy. All elements of the ERMF function together to support informed and effective risk management, while striking an appropriate balance between risk and return.

The ERMF guides our risk-taking activities in order to align them with customer needs, shareholder expectations and regulatory requirements. The ERMF also sets out our approach to risk management: maintain strong capital and liquidity positions, diversify and limit tail risk, optimize risk return, understand and manage the risks we face, and protect our reputation. Our approach to risk governance is outlined in the ERMF, which incorporates our Risk Management Life Cycle, and informs our efforts to identify, assess, manage (which includes mitigation), monitor and report on our exposure to material risks. The ERMF is driven by our people, processes and technology, along with a range of risk management tools, including modelling and analytics, stress testing and scenario analysis, and our Risk Taxonomy. All elements of the ERMF are supported by our risk culture and provide for the direct management of each individual risk type, as well as the management of risk on an integrated basis.



*RRC: Risk Review Committee, ACRC: Audit and Conduct Review Committee, RMC: Risk Management Committee, ERC: Enterprise Regulatory Committee

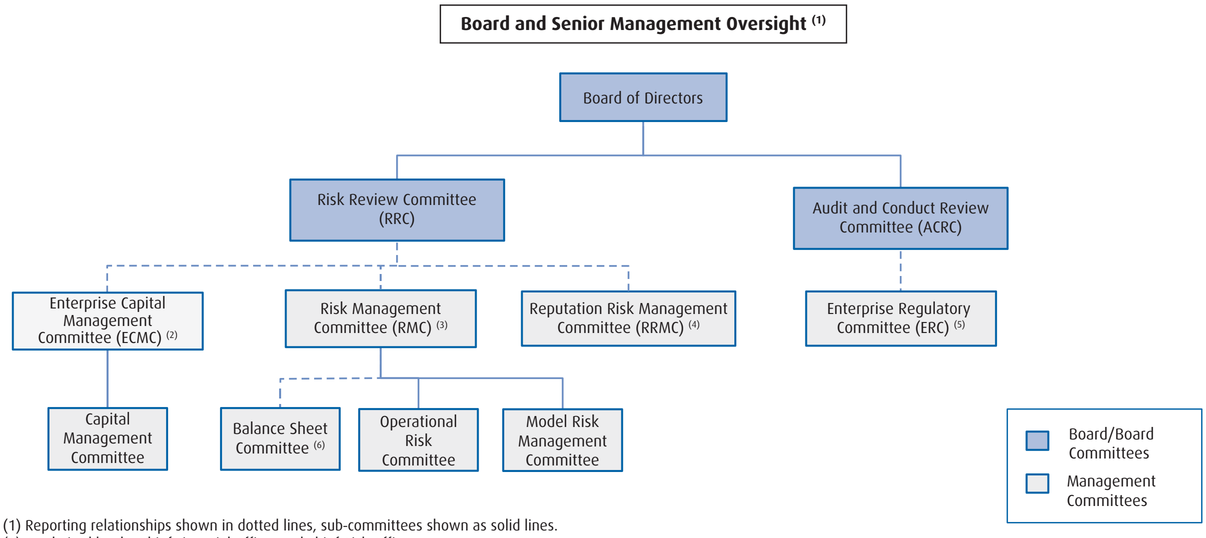
Risk Governance

The ERMF outlines a governance approach that includes robust Board of Directors and senior management oversight, a Risk Appetite Framework, the Enterprise Policy Framework and the corresponding roles in the three-lines-of-defence operating model.

Board of Directors and Senior Management Oversight

Specific policies approved by our Board of Directors govern our approach to the management of material risks, and oversight is exercised at every level of the enterprise through a hierarchy of committees and individual responsibilities, as outlined in the following diagram. The Board of Directors seeks to ensure that corporate objectives are supported by a sound risk strategy and an effective ERMF that is appropriate to the nature, scale, complexity and risk profile of our lines of business and other operations. The Board also has overall responsibility for oversight of the bank's governance framework and corporate culture. Senior management reviews and discusses significant risk issues and action plans as they arise in the implementation of the enterprise-wide strategy, exercising oversight and governance of the risks taken across the enterprise and the processes through which exposures to such risks are identified, assessed, managed, monitored and reported on, in accordance with policies, and held within approved limits and risk tolerances.

The ERMF is reviewed on a regular basis by the Risk Review Committee (RRC) of the Board of Directors, in order to exercise oversight and guide risk-taking activities.



(1) Reporting relationships shown in dotted lines, sub-committees shown as solid lines.
(2) Co-chaired by the Chief Financial Officer and Chief Risk Officer.
(3) Chaired by the Chief Risk Officer.
(4) Chaired by the General Counsel.
(5) Co-chaired by the General Counsel and Chief Risk Officer.
(6) The Balance Sheet Committee (BSC) is a sub-committee of the Asset and Liability Management Committee (ALCO) and reports to RMC on matters related to Structural Market Risk and Liquidity and Funding Risk.

In addition to the oversight exercised by the Board of Directors and senior management, effective governance of the bank's risks is overseen by management committees and supported by the three-lines-of-defence operating model, which addresses risks across the operating groups and Corporate Services.

Board of Directors is responsible for supervising the management of the business and affairs of BMO. The Board, either directly or through its committees, is responsible for oversight of the following areas: strategic planning; defining risk appetite; identifying and managing risk; managing capital; fostering a culture of integrity; internal controls; succession planning and evaluation of senior management; communication; public disclosure; and corporate governance.

Risk Review Committee (RRC) of the Board of Directors assists the Board in fulfilling its risk management oversight responsibilities. This includes overseeing a strong risk culture; overseeing the identification and management of BMO's risks; monitoring adherence to risk management corporate policies and compliance with risk-related regulatory requirements; and evaluating the effectiveness of the Chief Risk Officer (CRO), in conjunction with the Human Resources Committee, including input into succession planning for the CRO. The ERMF is reviewed on a regular basis by the RRC and guides risk-taking activities and sets out the bank's approach to risk management.

Audit and Conduct Review Committee (ACRC) of the Board of Directors assists the Board in fulfilling its oversight responsibilities for the integrity of BMO's financial reporting and sustainability reporting on environmental, social and governance (ESG) matters; the effectiveness of BMO's internal controls; the internal audit function; the qualifications, independence and performance of the independent auditors; BMO's compliance with laws and regulations; transactions involving related parties; conflicts of interest and confidential information; standards of business conduct and ethics; cyber security; and consumer protection measures and complaints.

Chief Executive Officer (CEO) is directly accountable to the Board for all of BMO's risk-taking activities. The CEO is supported by the CRO and the ERPM group.

Chief Risk Officer (CRO) reports directly to the CEO and is head of ERPM and chair of RMC. The CRO is responsible for providing independent review and oversight of enterprise-wide risks and leadership on risk issues, developing and maintaining the ERMF and fostering a strong risk culture across the enterprise.

Risk Management Committee (RMC) brings together senior executive members of BMO management to oversee risk management across the enterprise. RMC reviews and discusses significant risk issues and action plans as they arise in the implementation of the enterprise-wide strategy. RMC exercises risk oversight and governance at the highest levels of management. This committee is chaired by the CRO, and its members include the heads of the operating groups, the CEO, the Chief Financial Officer (CFO) and the General Counsel.

RMC Sub-Committees have oversight responsibility for the risk exposures and balance sheet impacts that may arise from management strategies, governance practices, risk measurement, model risk management and contingency planning. RMC and its sub-committees exercise oversight of the risks taken across the enterprise and the processes through which such risks are identified, assessed, managed, monitored and reported on, in accordance with policies, and held within limits and risk tolerances.

Enterprise Risk and Portfolio Management (ERPM), as the second line of defence, provides risk management oversight, effective challenge and independent assessment of risk and risk-taking activities. ERPM supports a disciplined approach to risk-taking by exercising its responsibility for independent transactional approval and portfolio management, policy formulation, risk reporting, stress testing, modelling and risk education. This approach promotes consistency in risk management practices and standards across the enterprise, and verifies that any risks accepted are consistent with BMO's risk appetite.

Operating Groups and Corporate Services, including Technology and Operations, are responsible for effectively managing risks by identifying, assessing, managing, monitoring, mitigating and reporting on exposures to risk within their respective operations and lines of business in accordance with their established risk appetite. They exercise business judgment and maintain effective policies, processes and internal controls, so that significant risk issues are escalated and reviewed by ERPM. Individual governance committees and ERPM establish and monitor risk limits that are consistent with, and subordinate to, the Board-approved limits.

Risk Appetite Framework

BMO's Risk Appetite Framework consists of a Risk Appetite Statement and the responsibilities of senior management and the Board of Directors, and is supported by corporate policies, standards and guidelines, including the related risk limits, concentration levels and controls defined therein. Risk appetite defines the level and type of risk that the bank is willing to assume given its guiding principles, thereby supporting the pursuit of sound business initiatives, appropriate returns and targeted growth. Risk appetite is integrated with strategic and capital planning and performance management. The Risk Appetite Statement consists of both qualitative and quantitative specifications of our appetite for the assumption of material risks. Key risk metrics are outlined for material risks, with specific thresholds that allow senior management and the Board of Directors to monitor actual performance relative to risk appetite. On an annual basis, the RMC submits the Risk Appetite Statement and key risk metrics to the RRC, which in turn reviews and recommends them to the Board of Directors for approval. The Risk Appetite Statement is articulated and applied consistently across the enterprise, with operating groups, Corporate Services, key businesses and entities developing their own respective risk appetite statements within this framework.

We believe that risk management is every employee's responsibility. This is guided by five key principles that define our approach to managing risk across the enterprise and comprise our Risk Appetite Statement.

- **Understand and Manage** by only taking risks that are transparent and understood.
- **Protect BMO's Reputation** by adhering to principles of honesty, integrity, respect and high ethical standards, in line with our Code of Conduct.
- **Diversify. Limit Tail Risk** by targeting a business mix that minimizes earnings volatility and exposure to low-probability, high-impact events.
- **Maintain Strong Capital and Liquidity** positions that meet, or exceed, regulatory requirements and market expectations.
- **Optimize Risk Return** by managing risk-adjusted exposures and making decisions that create value for shareholders.

Risk Limits

Risk limits are set so that risk-taking activities remain within BMO's risk appetite, balancing risk diversification, exposure to loss and risk-adjusted returns. These limits inform business strategies and decisions, and are reviewed and approved by the Board of Directors or management committees, as appropriate, based on the level and granularity of the limits. They include:

- **Credit and Counterparty Risk** – limits on group and single-name exposures and material country, industry and portfolio/product segments.
- **Market Risk** – limits on economic value and earnings exposures to stress scenarios and significant market movements, as well as limits on value at risk and stress related to trading and underwriting activities.
- **Insurance Risk** – limits on policy exposures and reinsurance arrangements.
- **Liquidity and Funding Risk** – minimum limits governing the internal liquidity stress testing scenario, minimum regulatory liquidity ratio requirements, and maximum levels of asset pledging and wholesale funding, as well as limits related to liability diversification and exposure to credit and liquidity facilities.
- **Operational Non-Financial Risk** – key metrics for measuring operational and other non-financial risks that may have financial consequences.

The Board of Directors, after considering recommendations from the RRC and RMC, annually reviews and approves key risk limits and then delegates overall authority for these limits to the CEO. The CEO in turn delegates more specific authorities to the senior executives of the operating groups (first line of defence), who are responsible for the management of risk in their respective operations, and to the CRO. These delegated authorities allow risk officers to set risk tolerances, approve geographic and industry sector exposure limits within defined parameters, and establish underwriting and inventory limits for trading and investment banking activities. The criteria under which more specific authorities may be delegated across the organization, as well as the requirements relating to documentation, communication and monitoring of those specific delegated authorities, are set out in corporate policies and standards.

Enterprise Policy Framework

The Enterprise Policy Framework includes a comprehensive set of risk-related corporate policies, each of which is approved by the RRC, as well as corporate standards issued pursuant to those corporate policies that have been reviewed by the RMC and approved by senior management. Corporate policies and standards collectively outline the principles, expectations, and roles and responsibilities of senior management for ensuring that exposures to key risks are identified, assessed, managed, monitored and reported. Corporate policies and standards are reviewed and updated at a minimum every two years.

The Enterprise Policy Framework also includes supporting directives and procedures that apply across the first and second lines of defence to operationalize the requirements, roles and responsibilities, and frameworks outlined in those corporate policies and standards.

Three-Lines-of-Defence Operating Model

Our ERMF is operationalized through the three-lines-of-defence approach to managing risk, as described below:

- Operating groups and Corporate Services, which includes Technology and Operations, serve as our first line of defence. They are accountable for the risks arising from their businesses, operations and exposures. They are expected to pursue business opportunities within their established risk appetite and to identify, assess, manage (which includes mitigation), monitor and report on all risks in, or arising from, their businesses, operations and exposures. The first line fulfils its responsibilities by applying risk management and reporting methodologies, by establishing appropriate internal controls in accordance with the ERMF, and by monitoring the effectiveness of such controls. These processes and controls serve as the framework for our lines of business to act within their delegated risk-taking authority and risk limits, as set out in corporate policies and the Risk Appetite Framework. Corporate Services, while part of our first line of defence, may also serve in a governance capacity when specific roles and responsibilities are assigned to individuals or groups under the Enterprise Policy Framework.
- The second line of defence comprises ERPM and Legal & Regulatory Compliance. The second line exercises independent oversight, performs effective challenge and provides independent assessment of risks and risk management practices, including transaction, product and portfolio risk

management decisions, processes and controls applied in the first line of defence. The second line establishes enterprise-wide risk management policies, infrastructure, processes, methodologies and practices that the first and second lines use to identify, assess, manage (which includes mitigation), monitor and report on risks across the enterprise.
- Corporate Audit Division is the third line of defence. It provides an independent assessment of the effectiveness of internal controls across the enterprise, including controls that support the risk management and governance processes.

Risk Taxonomy

Our Risk Taxonomy categorizes the key risks to which BMO is exposed and provides an analytical framework for the risk management life cycle in relation to each of the key risks. Our Risk Taxonomy incorporates exposures to financial risks (Credit and Counterparty Risk, Market Risk, Insurance Risk and Liquidity and Funding Risk), non-financial risks (Operational Non-Financial Risk and Legal and Regulatory Risk) and transverse risks, which intersect with both financial and non-financial risks (Strategic Risk, Environmental and Social Risk and Reputation Risk). We maintain sub-categories under each Tier 1 risk to support effective risk management practices as part of the overall ERMF. Failure in managing these risks, or in controlling our exposures to them, could have material financial consequences for BMO.

Risk Management Life Cycle

Risk Identification, Assessment and Management

Risk identification is an integral step in recognizing the key inherent risks that BMO faces, assessing the potential for loss and then acting to mitigate this potential. Our Risk Taxonomy documents the key risks, supporting the implementation of our Risk Appetite Framework and assisting in identifying the primary risk categories for which stress capital consumption is estimated. Risk review and approval processes are established based on the nature, size and complexity of the risks involved. Generally, these involve a formal review and approval by either an individual or a committee that is independent of the originator. Delegated authorities and approvals by category are outlined below.

- **Portfolio transactions** – transactions are approved through risk assessment processes for all types of transactions at all levels of the enterprise, which include operating group recommendations and ERPM approval of credit risk, and transactional and position limits for market risk.
- **Structured transactions** – new structured products and transactions with significant legal and regulatory, accounting or tax implications are reviewed by the Global Markets Risk Committee, as appropriate, and are also assessed under the operational risk management process if they involve structural or operational complexity that may give rise to significant operational risk. Transactions that may give rise to significant or heightened reputation risk are reviewed by the Reputation Risk Management Committee.
- **Investment initiatives** – documentation of risk assessments is formalized through the investment assessment and approval process, and is reviewed and approved by Corporate Services based on the size of an initiative's investment spending and its inherent risk.
- **New products and services** – policies and procedures for the approval of new or modified products and services offered to customers are the responsibility of the first line of defence, including appropriate senior business leaders, and are reviewed and approved by subject matter experts and senior management in Corporate Services, as well as by other senior management committees.

Risk Monitoring and Reporting

Risk-Based Capital Assessment

Two measures of risk-based capital are used by BMO: economic capital and regulatory capital. Both are aggregate measures of the risk that the bank assumes in pursuit of its financial objectives, and enable the evaluation of returns on a risk-adjusted basis. Our operating model provides for the direct management of each type of risk, as well as the management of material risks on an integrated basis. Measuring the economic profitability of transactions or portfolios involves a combination of both expected and unexpected losses to assess the extent and correlation of risk before authorizing new exposures. Both expected and unexpected loss measures for a current transaction or portfolio reflect current and future market conditions, the inherent risk in the position and, as appropriate, its credit quality. Risk-based capital methods and material models are reviewed at least annually and updated as appropriate. The risk-based capital models provide a forward-looking estimate of the difference between the maximum potential loss in economic (or market) value and expected loss, measured over a specified time interval and using a defined confidence level.

Stress Testing

Stress testing is a key element of our risk management and capital management frameworks. It is integrated into our enterprise and group risk appetite statements and embedded in our management processes. To evaluate risks, we regularly test a range of scenarios, which vary in frequency, severity and complexity, in portfolios and businesses across the enterprise. In addition, we participate in regulatory stress tests in multiple jurisdictions. Governance of the stress testing framework resides with senior management, including the Enterprise Stress Testing Committee. This committee comprises business, risk and finance executives, and is accountable for reviewing and challenging enterprise-wide scenarios and stress test results. Stress testing and enterprise-wi … ated with the Internal Capital Adequacy Assessment Process (ICAAP), including recommendations for action … manage the impact of a stress event, are established by senior management and presented to the Board of Directors. Oversight … the stress testing associated with the Horizontal Capital Review (HCR), which is a U.S. regulatory requirement for BMO Financial Corp. (BFC), are exercised at the BFC level by its Board of Directors.

Quantitative models and tools, along with qualitative evaluations, are utilized to assess the impact of changes in the macroeconomic environment on the income statement and balance sheet and the resilience of the bank's capital position over a forecast horizon. Models utilized for stress testing are approved and governed under the Model Risk Management Framework, and are used to establish a better understanding of our risks and to test our capital adequacy.

MD&A

BMO's stress testing framework integrates stress testing at the line of business, portfolio, industry, geographic and product level, and embeds the test results in strategy, business planning and decision-making. Targeted portfolio, industry and geographic analysis is conducted by ERPM and the lines of business to test risk appetite, limits, concentration and strategy. Ad hoc stress testing is conducted in response to changing economic or market conditions and in order to assess business strategies.

Refer to the Environmental and Social Risk section for a discussion of our climate scenario analysis program.

Enterprise Stress Testing

Enterprise stress testing supports BMO's ICAAP and target-setting through analysis of the potential effects of low-frequency, high-severity events on our earnings, our balance sheet, and our liquidity and capital positions. Scenario selection is a multi-step process that considers material and idiosyncratic risks and the potential impact of new or emerging trends on risk profiles, as well as the macroeconomic environment. Scenarios may be defined by senior management or regulators. The economic impacts are determined by the Economics group, which distills the scenarios into macroeconomic and market variables that include, but are not limited to, GDP growth, yield curve estimates, unemployment rates, real estate prices, stock index growth and changes in corporate profits. These macroeconomic variables drive stress loss models, tools and qualitative assessments that are applied to determine estimated stress impacts. The scenarios are used by operating, risk and finance groups to assess a broad range of financial impacts that BMO could experience as a result of a specific stress, as well as the ordinary course of business and extraordinary actions anticipated in response to that stress.

Stress test results, including mitigating actions, are benchmarked and challenged by the relevant business units and senior management, including the Enterprise Stress Testing Committee.

Risk Culture

The Enterprise Culture and Conduct Framework sets out BMO's approach to managing and mitigating potential misconduct. Misconduct is behaviour that falls short of legal, professional, internal conduct and ethical standards. Similar to BMO's approach to managing other non-financial risks, this framework is supported by the ERMF and our focus on maintaining a strong risk culture. BMO reports on various metrics related to culture and conduct, and engages with other control frameworks across the enterprise and in all of the jurisdictions in which it operates.

Risk culture at BMO is the set of shared norms, attitudes and behaviours related to risk awareness, risk-taking and risk management. Sound risk culture consistently supports appropriate behaviours and judgments about risk-taking, and promotes effective risk management and the alignment of risk-taking activities with BMO's Risk Appetite. Our risk culture informs and supports our overall organizational culture. We are committed to high ethical standards, grounded in our values of integrity, empathy, diversity and responsibility. Our Purpose – to Boldly Grow the Good *in business and life* – defines BMO as an organization and is the foundation of our operations. ERPM is responsible for the development and promotion of a healthy, strong risk culture across the enterprise. In pursuing this mandate, ERPM works closely with Legal & Regulatory Compliance and its Ethics & Conduct Office, as well as People & Culture. BMO's risk culture is founded on four guiding principles that together reinforce its effectiveness across the bank: Tone from the Top, Accountability, Effective Communication and Challenge, and Incentives.

- **Tone from the Top:** Our risk culture is grounded in an approach to risk management that encourages openness, constructive challenge and personal accountability. Each member of senior management plays a critical role in fostering this strong risk culture among all employees by effectively communicating this responsibility and by the example of their actions. The Board of Directors oversees BMO's corporate objectives, and affirms that they are supported by a sound risk strategy and an effective ERMF that is appropriate to the nature, scale, complexity and risk profile of our operations.
- **Accountability:** BMO's ERMF is anchored in the three-lines-of-defence approach to managing risk. Our risk culture also encourages the escalation of concerns associated with potential or emerging risks to senior management, so that those concerns can be appropriately evaluated and addressed. BMO encourages and supports an environment in which concerns can be raised without retaliation.
- **Effective Communication and Challenge:** Timely and transparent sharing of information is integral to engaging stakeholders in key decisions and strategy discussions, which brings added rigour and discipline to BMO's decision-making. This not only leads to the timely identification, escalation and resolution of issues, but also encourages open communication, independent challenge and an understanding of the key risks faced by the organization, so that employees are equipped and empowered to make decisions and take action in a coordinated and consistent manner, supported by a strong and effective monitoring and control framework.
- **Incentives:** Compensation and other incentives are aligned with prudent risk-taking. These are designed to reward the appropriate use of capital and respect for the rules and principles of the ERMF, and to discourage excessive risk-taking. Risk managers have input into the design of incentive programs that may have an effect on risk-taking. We also maintain training programs that are designed to foster a deep understanding of BMO's capital management and risk management frameworks across the enterprise, providing employees and management with the tools and insights they need to fulfill their responsibilities for independent oversight, regardless of their role in the organization.

Credit and Counterparty Risk

Credit and Counterparty Risk is the potential for financial loss due to the failure of an obligor (i.e., a borrower, endorser, guarantor or counterparty) to repay a loan or honour another predetermined financial obligation.

Credit and counterparty risk underlies every lending activity that we enter into, and also arises in the holding of investment securities, transactions related to trading and other capital markets products, and activities related to securitization. Credit risk and counterparty risk represent the most significant measurable risks we face. Effective management of credit and counterparty risk is integral to our success, since failure to do so could have an immediate and significant impact on our earnings, financial condition and reputation.

Credit and Counterparty Risk Governance

The Credit Risk Management Framework seeks to ensure that all material credit risks to which the enterprise is exposed are identified, assessed, managed, monitored and reported on regularly. The Risk Review Committee (RRC) has oversight of the management of all material risks that BMO faces, including the Credit Risk Management Framework. The framework incorporates governing principles that are defined in a series of corporate policies and standards and are given effect through specific operating procedures. These policies and standards are reviewed on a regular basis and modified as necessary, so that they are current and consistent with our risk appetite. The structure, limits (both notional and capital-based), collateral requirements, monitoring, reporting and ongoing management of credit and counterparty exposures are all governed by these credit risk management principles.

Lending officers in the operating groups are responsible for recommending credit decisions based on the completion of appropriate due diligence, and they assume accountability for the related risks. In some instances, relatively small transactions may be assessed by an automated decision-making process, or they may be approved by first-line underwriters with appropriate training, independence and oversight. Credit officers in Enterprise Risk and Portfolio Management (ERPM) approve larger transactions or transactions involving greater risk and are accountable for providing an objective independent assessment of the relevant lending recommendations and risks assumed by the lending officers. All of these individuals in the first and second lines of defence are subject to a lending qualification process and operate in a disciplined environment with clear delegation of decision-making authority, including individually delegated lending limits where appropriate, which are reviewed annually or more frequently, as needed. The Board of Directors annually delegates to the CEO discretionary lending limits for further specific delegation to senior officers. Credit decision-making is conducted at the management level appropriate to the size and risk of each transaction, in accordance with a range of corporate policies, standards and procedures governing the conduct of activities in which credit risk arises. Corporate Audit Division reviews and tests management processes and controls and samples credit transactions in order to assess adherence to acceptable lending standards as set out in BMO's Risk Appetite Statement, as well as compliance with all applicable corporate policies, standards and procedures.

For corporate and commercial borrowers presenting a higher than normal risk of default, we have formal policies in place that outline the framework for managing such accounts, as well as specialized groups that manage them. We strive to identify borrowers facing financial difficulty early, and every effort is made to return such accounts to an acceptable level of risk through the application of good business judgment and the implementation of sound and constructive workout solutions.

All credit risk exposures are subject to regular monitoring. Performing corporate and commercial accounts are reviewed on a regular basis, generally no less frequently than annually, with most subject to internal monitoring of triggers that, if breached, result in an interim review. The frequency of review rises in accordance with the likelihood and size of potential credit losses, and deteriorating higher-risk situations are referred to specialized account management groups for closer attention, as appropriate. In addition, regular portfolio and sector reviews are conducted, including stress testing and scenario analysis based on current, emerging or prospective risks. Reporting is provided at least quarterly, and more frequently where appropriate, to the Board of Directors and senior management committees in order to keep them informed of credit risk developments in our portfolios, including changes in credit risk concentrations, watchlist accounts, impaired loans, provisions for credit losses, negative credit migration and significant emerging credit risk issues. This supports the RRC and senior management committees in any related decisions they may make.

Counterparty credit risk (CCR) involves a bilateral risk of loss because the market value of a transaction can be positive or negative for either counterparty. CCR exposures are subject to the credit oversight, limits, risk management framework and approval process outlined above. However, given the nature of the risk, CCR exposures are also monitored under the market risk framework. In order to reduce our exposure to CCR, transactions are often collateralized and trades may be cleared through a regulated central counterparty (CCP), which reduces overall systemic risk by standing between counterparties, maximizing netting across trades and insulating counterparties from each other's defaults. CCPs mitigate the risk of default by any member through margin requirements (both initial and variation) and a default management process, including a default fund and other provisions. Our exposures to CCPs are subject to the same credit risk governance, monitoring and rating framework we apply to all other corporate accounts.

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Material presented in a blue-tinted font above is an integral part of Note 5 of the 2023 audited annual consolidated financial statements.

Credit and Counterparty Risk Management

Collateral Management

Collateral is used for credit risk mitigation purposes in order to minimize losses that would otherwise be incurred in the event of a default. Depending on the type of borrower or counterparty, the assets available and the structure and term of the credit obligations, collateral can take various forms. For corporate and commercial borrowers, collateral can take the form of pledges of the assets of a business, such as accounts receivable, inventory, machinery or real estate, or personal assets pledged in support of guarantees. For trading counterparties, BMO may enter into legally enforceable netting agreements for on-balance sheet credit exposures, when possible. In the securities financing business (including repurchase agreements and securities lending), we obtain eligible financial collateral that we control and can readily liquidate.

Collateral for BMO's derivatives trading counterparty exposures primarily comprises cash and eligible liquid securities that are monitored and revalued on a daily basis. Collateral is obtained under the contractual terms of standardized industry documentation.

With limited exceptions, we utilize the Master Agreement provided by International Swaps and Derivatives Association Inc., frequently with a Credit Support Annex, to document our collateralized trading relationships with counterparties for over-the-counter (OTC) derivatives that are not centrally cleared.

A Credit Support Annex entitles a party to demand a transfer of collateral (or other credit support) when its exposure to OTC derivatives of the other party exceeds an agreed threshold. Collateral to be transferred can include variation margin or initial and variation margin. Credit Support Annexes contain, among other measures, certain thresholds and provisions setting out acceptable types of collateral, a method for their valuation (discounts are often applied to market values), the availability of the collateral for re-pledging by the recipient and the manner in which interest is to be calculated.

To document our contractual securities financing relationships with counterparties, we utilize master repurchase agreements for repurchase transactions, and master securities lending agreements for securities lending transactions.

On a periodic basis, collateral is subject to revaluation based on the specific asset type. For loans, the value of collateral is initially established at the time of origination, and the frequency of revaluation is dependent on the type of collateral. For commercial real estate collateral, a full external appraisal of the property is typically obtained at the time of loan origination, unless the exposure is below a specified threshold amount, in which case an internal evaluation and a site inspection are conducted. Internal evaluations may consider property tax assessments, purchase prices, real estate listings or realtor opinions. The case for an updated appraisal is reviewed annually, with consideration given to the borrower risk rating, existing tenants and lease contracts, as well as current market conditions.

In the event a loan is classified as impaired, and depending on its size, a current external appraisal, valuation or restricted use appraisal is obtained and updated every 12 months, as long as the loan remains classified as impaired. In Canada, for residential real estate that has an original loan-to-value (LTV) ratio of less than 80%, an independent property valuation is routinely obtained at the time of loan origination. For U.S. residential loans secured by real estate, an independent property valuation is obtained for all loans that will be retained in BMO's loan portfolio. For certain real estate loans originated for sale to government-sponsored agencies, the requirement may be waived based on an existing valuation already on file with that agency.

We may use an external service provided by Canada Mortgage and Housing Corporation or an automated valuation model from a third-party appraisal management provider to assist in determining either the current value of a property or the need for a full property appraisal.

For insured residential mortgages in Canada with an original LTV ratio greater than 80%, the default insurer is responsible for confirming the current value of the property.

Portfolio Management and Concentrations of Credit and Counterparty Risk

Our credit risk governance policies require an acceptable level of diversification to help ensure we avoid undue concentrations of credit risk. Concentrations of credit risk may exist when a relatively large number of clients are engaged in similar activities, are located in the same geographic region or have similar economic characteristics such that their ability to meet contractual obligations could be similarly affected by changes in economic, political or other conditions. Limits may be specified for several portfolio dimensions, including industry, specialty segments, country, product and single-name concentrations. We use a range of tools to reduce the credit risk exposures in our loan portfolio. These include asset sales, traditional securitizations, or the purchase of credit protection in the form of credit default swaps or credit insurance and risk transfer transactions. Credit risk is mitigated by obtaining protection from better-rated counterparties or high-quality collateral. Credit risk mitigation activities support our management of capital, and individual and portfolio credit concentration.

Our credit assets consist of a well-diversified portfolio representing millions of clients, the majority of them individual consumers and small to medium-sized businesses. On a drawn loans and commitments basis, our most significant credit exposure at default as at October 31, 2023 was to individual consumers, comprising $344,912 million ($290,896 million as at October 31, 2022).

Wrong-Way Risk

Wrong-way risk occurs when our exposure to a counterparty or the magnitude of our potential loss is highly correlated with the counterparty's probability of default. Specific wrong-way risk arises when the credit quality of the counterparty and the market risk factors affecting collateral or other risk mitigants display a high correlation, and general wrong-way risk arises when the credit quality of the counterparty, for non-specific reasons, is highly correlated with macroeconomic or other factors that affect the value of the risk mitigant. Our procedures require that specific wrong-way risk be identified in transactions and accounted for in the assessment of risk, including any heightened level of exposure.

Material presented in a blue-tinted font above is an integral part of Note 5 of the 2023 audited annual consolidated financial statements.

Credit and Counterparty Risk Measurement

BMO quantifies credit risk at both the individual borrower or counterparty level and the portfolio level. In order to limit earnings volatility, manage expected credit losses and minimize unexpected losses, credit risk is assessed and measured using the following risk-based parameters:

- **Exposure at Default (EAD)** represents an estimate of the outstanding amount of a credit exposure at the time a default may occur.
- **Loss Given Default (LGD)** is a measure of BMO's economic loss, such as the amount that may not be recovered in the event of a default, presented as a proportion of the exposure at default.
- **Probability of Default (PD)** represents the likelihood that a borrower or counterparty will go into default over a one-year time horizon.
- **Expected Loss (EL)** is a measure of the loss that BMO is expected to incur in the normal course of business in a given period of time. EL is calculated as a function of EAD, LGD and PD.

Under Basel III, the Office of the Superintendent of Financial Institutions (OSFI) permits three approaches for the measurement of credit risk: Standardized, Foundation Internal Ratings Based (FIRB) and Advanced Internal Ratings Based (AIRB). BMO primarily uses the Internal Ratings Based (IRB) Approach, which includes both AIRB and FIRB, to determine credit risk-weighted assets (RWA) in its portfolios, including portfolios of the bank's subsidiary BMO Financial Corp. Under the Basel III Reform requirement, it is mandatory to apply FIRB to a subset of IRB exposures where LGD and EAD are based on regulatory prescribed values. Refer to the Supplementary Regulatory Capital Information disclosure for details regarding the total exposure (measured as EAD) of Retail and Wholesale portfolios under the IRB Approach to determining regulatory capital. The remaining exposures reflect waivers and exemptions to the IRB Approach and are measured under the Standardized Approach, subject to OSFI's approval. We continue to transition all material exposures in this category to the AIRB Approach. For securitization exposures, we apply the Basel hierarchy of approaches, including the Securitization Internal Ratings Based Approach and the External Ratings Based Approach, as well as the Standardized Approach.

BMO's regulatory capital and economic capital frameworks both use EAD to assess credit and counterparty risk. Capital is calculated based on exposures that, where applicable, have been redistributed to a more favourable PD band or LGD measure, or a different Basel asset class, as a result of the application of credit risk mitigation and a consideration of credit risk mitigants, including collateral and netting.

Total credit exposures at default by type and industry sector, as at October 31, 2023 and 2022, based on the Basel III classifications, are as follows:

(Canadian $ in millions)	Drawn (3) (7)		Commitments (undrawn) (3) (8)		Other off-balance sheet items (3) (9)		OTC derivatives (4) (10)		Repo-style transactions (4) (5) (11)		Total (1)	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Individual	**281,087**	233,450	**63,812**	57,446	**13**	–	**–**	–	**–**	–	**344,912**	290,896
Financial institutions	**95,433**	112,185	**18,690**	34,216	**7,201**	8,036	**19,307**	16,467	**16,177**	18,197	**156,808**	189,101
Governments	**219,809**	186,542	**2,551**	1,869	**1,575**	434	**8,193**	8,063	**5,870**	9,287	**237,998**	206,195
Manufacturing	**33,141**	32,515	**16,059**	17,522	**1,915**	2,050	**807**	1,643	**–**	–	**51,922**	53,730
Real estate	**61,766**	49,639	**11,843**	12,911	**971**	1,238	**224**	459	**–**	–	**74,804**	64,247
Retail trade	**27,858**	23,890	**4,621**	4,890	**441**	549	**129**	248	**–**	–	**33,049**	29,577
Service industries	**56,649**	52,437	**13,552**	17,113	**3,172**	3,169	**696**	695	**–**	–	**74,069**	73,414
Wholesale trade	**20,117**	18,037	**7,618**	7,206	**611**	775	**167**	336	**–**	–	**28,513**	26,354
Oil and gas	**3,364**	3,823	**2,889**	4,440	**788**	1,341	**1,444**	6,066	**–**	–	**8,485**	15,670
Utilities	**11,224**	8,781	**8,767**	12,885	**4,547**	4,323	**1,850**	2,087	**–**	–	**26,388**	28,076
Others (2)	**62,636**	50,936	**18,132**	18,111	**4,009**	5,287	**1,634**	1,649	**–**	–	**86,411**	75,983
Total exposure at default (6)	**873,084**	772,235	**168,534**	188,609	**25,243**	27,202	**34,451**	37,713	**22,047**	27,484	**1,123,359**	1,053,243

(1) Credit exposure excluding equity, securitization and other assets, such as non-significant investments, goodwill, deferred tax assets and intangibles.
(2) Includes remaining industries that individually comprise less than 2% of total exposures.
(3) Represents gross credit exposures without accounting for collateral.
(4) Credit exposure at default is inclusive of collateral.
(5) Repo-style transactions include repos, reverse repos and securities lending transactions, which represent both asset and liability exposures. The impact of collateral on the credit exposure for repo-style transactions is $228,691 million ($215,806 million in 2022).
(6) Excludes exposures arising from derivative and repo-style transactions that are cleared through a clearing house or a central counterparty totalling $9,025 million ($13,698 million in 2022).
(7) Drawn exposures include loans, acceptances, deposits with regulated financial institutions and certain securities.
(8) Undrawn commitments cover all unutilized authorizations associated with the drawn exposures noted above, including any authorizations that are unconditionally cancellable. EAD for undrawn commitments is model-generated, based on internal empirical data.
(9) Other off-balance sheet exposures include items such as guarantees, standby letters of credit and documentary credits.
(10) Over-the-counter (OTC) derivatives are those in proprietary accounts that result in exposure to credit risk in addition to market risk. EAD for OTC derivatives is calculated inclusive of collateral.
(11) EAD for repo-style transactions is the calculated exposure, net of collateral.

Certain comparative figures have been reclassified to conform with the current year's presentation.

Risk Rating Systems

BMO's risk rating systems are designed to assess and measure the risk of exposure.

Credit risk-based parameters are monitored, reviewed and validated regularly. Monitoring is on a quarterly basis for both the wholesale and retail models. Refer to the Model Risk section for a discussion of model risk mitigation processes.

Retail (Consumer and Small Business)

The retail portfolios comprise a diversified group of individual customer accounts and include residential mortgages, personal loans, credit cards, auto loans and small business loans. These loans are managed in pools of homogeneous risk exposures for risk rating purposes. Decision support processes are developed using established statistical techniques and expert systems for underwriting and monitoring purposes. Adjudication models, behavioural scorecards, decision trees and expert knowledge are combined to generate optimal credit decisions in a centralized and automated environment.

Material presented in a blue-tinted font above is an integral part of Note 5 of the 2023 audited annual consolidated financial statements.

The retail risk rating system assesses risk based on individual loan characteristics. We have a range of internally developed PD, LGD and EAD models for each of the major retail portfolios. The major product lines within each of the retail portfolios are modelled separately, so that the risk-based parameters capture the distinct nature of each product. The models, in general, are based on internal historical data recorded over a multi-year period that includes at least one full economic cycle, in compliance with regulatory requirements. Adjustments are incorporated into the parameters, as appropriate, to account for uncertainties. The retail parameters are tested and calibrated on an annual basis, if required, to incorporate additional data points and recent experience in the parameter estimation process. Risk drivers used in the retail credit models may include customer attributes such as delinquency status and credit scores, and account attributes such as loan amounts and utilization.

A PD estimate is assigned to each homogeneous pool to reflect the long-run average of one-year default rates over the economic cycle.

An LGD estimate is calculated by discounting future recovery payments to the time of default, including collection costs.

An EAD estimate is calculated as the balance at default divided by the credit limit at the beginning of the year. For non-revolving products, such as mortgages, EAD is equal to 100% of the current outstanding balance and has no undrawn component.

For capital purposes, the LGD and EAD estimates are calibrated to reflect downturn conditions. The PD, LGD and EAD estimates are updated annually and recalibrated as required by comparing the estimates to observed historical experience.

Retail Credit Probability of Default Bands by Risk Rating

Risk profile	Probability of default band
Exceptionally low	≤ 0.05%
Very low	> 0.05% to 0.20%
Low	> 0.20% to 0.75%
Medium	> 0.75% to 7.00%
High	> 7.00% to 99.99%
Default	100%

Wholesale (Sovereign, Bank, Corporate and Commercial)

Within our wholesale portfolios, an enterprise-wide risk rating framework is applied to all sovereign, bank, corporate and commercial counterparties. One key element of this framework is the assignment of appropriate borrower or counterparty risk ratings (BRRs). We have a range of internally developed general and sector-specific BRR models, as well as portfolio-level LGD and EAD models for each of the sovereign, bank, corporate and commercial portfolios.

The BRR models capture the key financial and non-financial characteristics of the borrowers and generate a borrower-level rating that reflects the relative rank order of the default risk. The models are primarily based on internal data, supplemented by judgment as necessary, for low-default portfolios.

BRRs are assessed and assigned at the time of loan origination, and reassessed when borrowers request changes to credit facilities or when events trigger a review, such as an external rating change or a covenant breach. BRRs are reviewed no less frequently than annually, and more frequent reviews are conducted for borrowers with less acceptable risk ratings. The assigned ratings are mapped to a PD reflecting the likelihood of default over a one-year time horizon. As a borrower migrates between risk ratings, the PD associated with the borrower also changes.

We employ a master scale with 14 BRRs above default, and PDs are assigned to each rating within an asset class to reflect the long-run average of one-year default rates over an economic cycle, supplemented by external benchmarking, as necessary.

An LGD estimate captures the priority of claim, collateral, product and sector characteristics of the credit facility extended to a borrower. LGD estimates are at the facility level.

An EAD estimate captures the facility type, sector and utilization rate characteristics of the credit facility extended to a borrower. EAD estimates are at the facility level. An EAD credit conversion factor is calculated for eligible facilities by comparing amounts drawn at the time of default and one year prior to default. The authorization and the amount drawn, one year prior to default, are used to split each facility into its respective drawn and undrawn portion, where applicable.

LGD and EAD models have been developed for each asset class using internal data recorded over a multi-year period that includes at least one full economic cycle, in compliance with regulatory requirements. Results are benchmarked using external data when necessary and adjustments are incorporated into the parameters, as appropriate, to account for uncertainties. For capital purposes, the LGD and EAD parameters are calibrated to reflect downturn conditions. The PD, LGD and EAD estimates are updated annually and recalibrated as required by comparing the estimates to observed historical experience.

As demonstrated in the table below, our internal risk rating system can be aligned with those of external rating agencies.

Wholesale Borrower Risk Rating Scale

BMO rating	Moody's Investors Service implied equivalent	Standard & Poor's implied equivalent
Acceptable		
I-1 to I-7	Aaa to Baa3	AAA to BBB-
S-1 to S-4	Ba1 to B1	BB+ to B+
Watchlist		
P-1 to P-3	B2 to Ca	B to CC
Default/Impaired		
D-1 to D-4	C	C to D

Material presented in a blue-tinted font above is an integral part of Note 5 of the 2023 audited annual consolidated financial statements.

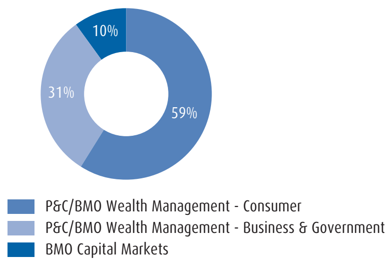
Credit Quality Information

Portfolio Review

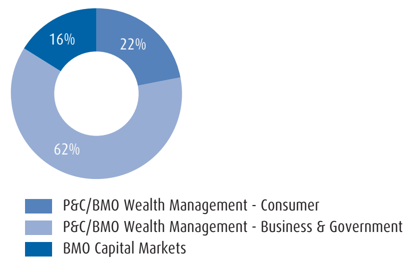
Total enterprise-wide outstanding credit risk exposures were $1,123.4 billion as at October 31, 2023, with $537.4 billion recorded in Canada, $539.2 billion in the United States and $46.8 billion in other jurisdictions. This represented an increase of $70.2 billion or 7% from the prior year.

BMO's loan book continues to be well-diversified by industry and geographic region. Gross loans and acceptances increased $101.2 billion or 18% from the prior year to $668.4 billion as at October 31, 2023. The geographic mix of BMO's Canadian and U.S. portfolios represented 55.9% and 42.4% of total loans, respectively, compared with 62.6% and 35.4% in the prior year. The loan portfolio is well-diversified, with the consumer loan portfolio representing 43.9% of the total portfolio, a slight increase from 43.1% in the prior year, and business and government loans representing 56.1% of the total portfolio, a slight decrease from 56.9% in the prior year.

Canada and Other Countries



U.S.



Commercial Real Estate Lending

Commercial real estate (CRE) lending refers to loans made for the purpose of financing buildings or land intended to generate a profit, derived either from the sale of property or from rental income. CRE primarily refers to two distinct types of real estate businesses: income-producing real estate (office, industrial and retail space, and multi-family residential buildings with more than four dwelling units), including the construction of these assets; and development of land and construction of properties for sale (subdivisions, condominiums and other types of property). Our primary focus is on owners of income-producing commercial real estate portfolios with stable operating performance, diversified portfolios, modest leverage and continued access to capital, including those legally structured as real estate investment trusts (REITs), real estate investment funds and real estate operating companies (REOCs), as well as pension funds and other established owners of income-producing commercial real estate.

Our CRE portfolio was $69.8 billion as at October 31, 2023 ($54.5 billion as at October 31, 2022) and accounted for 10% of total gross loans and acceptances (10% as at October 31, 2022). The portfolio is well-managed, with consistent and conservative underwriting standards, strict lending criteria and structural resilience, resulting in strong credit quality. As at October 31, 2023, 57% of CRE loans are investment grade (69% as at October 31, 2022) and 41% are sub-investment grade (30% as at October 31, 2022), with impaired loans representing 1% of the portfolio (0% as at October 31, 2022).

Our CRE portfolio is well-diversified across businesses, property types and geographic regions. Given the post-pandemic prevalence of remote and hybrid work arrangements, office space is one of the higher-risk portfolio segments within commercial real estate and represents 1% of our total gross loans and acceptances. In addition to monitoring the limits we set for the CRE portfolio, we apply lower limits on each segment, including office space, which helps us mitigate any exposure to related risks.

Real Estate Secured Lending

Real estate secured lending comprises residential mortgages and home equity lines of credit (HELOC) we extend to individuals, secured by residential real estate, which is defined as residential structures with one to four dwelling units. The increases in prime interest rates during fiscal 2022 and 2023 impacted variable-rate mortgages, resulting in extended and negative amortization. These prime rate increases had no immediate impact on fixed-rate mortgages, which are fixed at one rate until renewal.

We regularly perform stress testing on our residential mortgage and HELOC portfolios to assess the potential effects of high-impact events. These stress tests incorporate scenarios ranging from moderately to severely adverse. The credit losses forecast in these tests vary with the severity of the scenario and are currently considered to be manageable.

The following tables provide a breakdown of residential mortgages and HELOCs by geographic region, as well as insured and uninsured balances. Residential mortgages and HELOCs are secured by residential properties.

Canadian Real Estate Secured Lending

(Canadian $ in millions)	Residential mortgages	Amortizing home equity lines of credit	Total amortizing real estate secured lending	Non-amortizing real estate secured lending	Total Canadian real estate secured lending
As at October 31, 2023	**150,575**	**35,741**	**186,316**	**12,982**	**199,298**
As at October 31, 2022	139,394	34,083	173,477	13,219	186,696

Material presented in a blue-tinted font above is an integral part of Note 5 of the 2023 audited annual consolidated financial statements.

Residential Mortgages (1)

	As at October 31, 2023					As at October 31, 2022				
(Canadian $ in millions, except as noted)	Outstanding balances				For the 12 months ended	Outstanding balances				For the 12 months ended
Region (2)	Insured (3)	Uninsured	Total	% of total	Average LTV uninsured (4)	Insured (3)	Uninsured	Total	% of total	Average LTV uninsured (4)
Atlantic	**3,347**	**3,452**	**6,799**	**3.8%**	**71%**	3,197	3,255	6,452	4.3%	72%
Quebec	**9,242**	**12,903**	**22,145**	**12.5%**	**71%**	8,892	12,156	21,048	14.2%	72%
Ontario	**14,643**	**56,798**	**71,441**	**40.3%**	**70%**	14,411	49,664	64,075	43%	70%
Alberta	**9,885**	**7,302**	**17,187**	**9.7%**	**73%**	9,552	6,854	16,406	11%	74%
British Columbia	**4,746**	**24,391**	**29,137**	**16.5%**	**67%**	4,680	22,919	27,599	18.5%	68%
All other Canada	**2,264**	**1,602**	**3,866**	**2.2%**	**73%**	2,179	1,635	3,814	2.6%	73%
Total Canada	**44,127**	**106,448**	**150,575**	**85.0%**	**70%**	42,911	96,483	139,394	93.6%	70%
United States	**68**	**26,607**	**26,675**	**15.0%**	**77%**	16	9,470	9,486	6.4%	72%
Total	**44,195**	**133,055**	**177,250**	**100%**	**71%**	42,927	105,953	148,880	100%	71%

Home Equity Lines of Credit (1)

	As at October 31, 2023					As at October 31, 2022				
(Canadian $ in millions, except as noted)	Portfolio				For the 12 months ended	Portfolio				For the 12 months ended
Region (2)	Outstanding balances	%	Authorizations	%	Average LTV (4)	Outstanding balances	%	Authorizations	%	Average LTV (4)
Atlantic	**996**	**1.8%**	**1,922**	**1.7%**	**60%**	967	1.9%	1,835	1.9%	64%
Quebec	**9,149**	**16.6%**	**18,071**	**15.9%**	**67%**	8,897	17.6%	17,085	17.4%	71%
Ontario	**24,601**	**44.6%**	**45,351**	**40.0%**	**59%**	23,647	46.8%	43,063	43.9%	63%
Alberta	**3,203**	**5.8%**	**6,970**	**6.2%**	**62%**	3,232	6.4%	6,835	6.9%	66%
British Columbia	**10,029**	**18.2%**	**18,899**	**16.7%**	**59%**	9,826	19.5%	17,953	18.3%	61%
All other Canada	**745**	**1.3%**	**1,474**	**1.3%**	**66%**	733	1.5%	1,443	1.5%	67%
Total Canada	**48,723**	**88.3%**	**92,687**	**81.8%**	**61%**	47,302	93.7%	88,214	89.9%	64%
United States	**6,471**	**11.7%**	**20,615**	**18.2%**	**60%**	3,196	6.3%	9,902	10.1%	64%
Total	**55,194**	**100%**	**113,302**	**100%**	**61%**	50,498	100%	98,116	100%	64%

(1) Reporting methodologies are in accordance with OSFI's Residential Mortgage Underwriting Practices and Procedures (B-20) Guideline.
(2) Region is based upon address of the property mortgaged.
(3) Portfolio insured mortgages are defined as mortgages that are insured individually or in bulk through an eligible insurer (i.e., CMHC, Sagen MI Canada™).
(4) Loan-to-value (LTV) is based on the value of the property at mortgage origination, as well as outstanding balances for mortgages and authorized amounts for HELOCs.

Residential Mortgages by Remaining Term of Amortization (1) (2)

	Amortization period							
As at October 31, 2023	< 5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years	31-35 years	> 35 years
Canada (3)	**0.7%**	**2.5%**	**6.1%**	**13.6%**	**32.1%**	**18.0%**	**2.1%**	**24.9%**
United States (4)	**0.5%**	**2.2%**	**5.3%**	**2.8%**	**10.4%**	**78.6%**	**0.1%**	**0.1%**
Total	**0.7%**	**2.5%**	**5.9%**	**12.0%**	**28.8%**	**27.1%**	**1.8%**	**21.2%**

	Amortization period							
As at October 31, 2022	< 5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years	31-35 years	**> 35 years**
Canada (3)	0.8%	2.6%	5.7%	13.5%	32.3%	13.8%	3.4%	27.9%
United States (4)	0.7%	4.9%	9.9%	4.9%	14.3%	65.0%	0.1%	0.2%
Total	0.8%	2.7%	6.0%	13.0%	31.1%	17.1%	3.2%	26.1%

(1) In Canada, the remaining amortization is based on the current balance, interest rate, customer payment amount and payment frequency. Contractual payment schedule is used in the United States.
(2) Reporting methodologies are in accordance with OSFI's B-20 guideline.
(3) As a result of increases in interest rates, the portfolio included $29.9 billion ($22.3 billion as at October 31, 2022) of variable-rate mortgages in negative amortization, with all of the contractual payments currently being applied to interest, and the portion of interest due that is not met by each payment is added to the principal.
(4) A large proportion of U.S.-based mortgages in the longer-amortization band are primarily associated with modification programs for troubled borrowers and regulator-initiated mortgage refinancing programs.

Leveraged Finance

We define leveraged finance loans as loans and mezzanine financing provided to private equity-owned businesses for which our assessment indicates a higher level of credit risk. We have some exposure to leveraged finance loans, which represented 2% of total assets, with $26.7 billion outstanding as at October 31, 2023 (2% and $25.1 billion, respectively, in 2022). Of this amount, 25% of leveraged finance loans, with $6.8 billion outstanding as at October 31, 2023 (25% and $6.3 billion, respectively, in 2022), were well-secured by high-quality assets. The remainder of the portfolio is well-diversified across sectors and includes loans to borrowers where we have relatively small hold sizes. This portfolio is closely managed, and in some cases has risk mitigation and structural elements that lower the level of credit risk. As at October 31, 2023, $497 million or 2% of all leveraged finance loans were classified as impaired ($348 million or 1% in 2022). In addition to this leveraged finance lending business, we also enter into underwriting activities involving leveraged borrowers, which are managed through the market risk framework.

Provision for Credit Losses

Total provision for credit losses was $2,178 million on a reported basis and $1,473 million on an adjusted basis, compared with $313 million on both a reported and adjusted basis in the prior year, due to downward credit migration despite an improvement in the macroeconomic outlook, as well as higher losses on impaired loans. Detailed discussions of PCL, including historical PCL trends, are provided in Table 12 in the Supplemental Information and in Note 4 of the audited annual consolidated financial statements.

Gross Impaired Loans

Total gross impaired loans and acceptances (GIL) were $3,960 million, an increase from $1,991 million in the prior year. The increase in impaired loans was predominantly in business and government lending, with the largest increases in the service, commercial real estate and retail trade industries. GIL as a percentage of gross loans and acceptances was 0.59% in 2023, which increased from an historically low level of 0.35% in the prior year.

Factors contributing to the change in GIL are outlined in the table below. Loans classified as impaired during the year increased to $4,047 million from $1,635 million in 2022, reflecting higher impaired loan formations in both the wholesale and the consumer portfolios, including the purchased credit impaired loans related to the acquisition of Bank of the West. On a geographic basis, Canada accounted for 42% of total formations in 2023, compared with 71% in 2022.

Detailed breakdowns of impaired loans by geographic region and industry can be found in Table 8 in the Supplemental Information and in Note 4 of the audited annual consolidated financial statements.

Changes in Gross Impaired Loans and Acceptances

(Canadian $ in millions, except as noted) For the year ended October 31	**2023**	2022
GIL, beginning of year	**1,991**	2,169
Classified as impaired during the year	**4,047**	1,635
Purchased credit impaired during the year	**415**	–
Transferred to not impaired during the year	**(545)**	(659)
Net repayments	**(1,214)**	(819)
Amounts written off	**(753)**	(363)
Recoveries of loans and advances previously written off	**–**	–
Disposals of loans	**(24)**	(54)
Foreign exchange and other movements	**43**	82
GIL, end of year	**3,960**	1,991
GIL as a % of gross loans and acceptances	**0.59**	0.35

Allowance for Credit Losses

We employ a disciplined approach to provisioning and loan loss evaluation across all loan portfolios, with the prompt identification of problem loans being a key risk management objective. We maintain both an allowance for credit losses on impaired loans and an allowance for credit losses on performing loans, in accordance with International Financial Reporting Standards (IFRS). An allowance on performing loans is maintained to cover impairment in the existing portfolio for loans that have not yet been individually identified as impaired. Our approach to establishing and maintaining the allowance on performing loans is based on the requirements of IFRS, considering the guideline issued by our regulator, OSFI. Under the IFRS 9 expected credit loss (ECL) methodology, an allowance is recorded for ECL on financial assets regardless of whether there has been an actual loss event. We recognize an allowance for loss at an amount generally based on 12 months of ECL, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). We record ECL over the remaining life of performing financial assets that are considered to have experienced a significant increase in credit risk (Stage 2).

ECL is calculated on a probability-weighted basis that involves three different economic scenarios and is a function of PD, EAD and LGD estimates calibrated to meet the requirements for calculating ECL for a specific financial asset. The timing of the loss is also considered, and ECL is estimated by incorporating forward-looking economic information and applying experienced credit judgment to reflect factors not captured in ECL models. An allowance on impaired loans is maintained to reduce the carrying value of individually identified impaired loans (Stage 3) to the expected recoverable amount. Allowances in the second quarter of 2023 included an initial provision of $705 million on the purchased Bank of the West performing loan portfolio.

We maintain an allowance for credit losses (ACL) at a level that we consider appropriate to absorb credit-related losses. As at October 31, 2023, the total ACL was $4,267 million, an increase of $1,269 million from the prior year, reflecting the initial provision of $705 million on the Bank of the West performing loans and higher allowances on both performing and impaired loans. The allowance on impaired loans w
October 31, 2023, and the allowance on performing loans was $3,572 million. These amounts included an allowance on ir
and an allowance on performing loans of $449 million, related to undrawn commitments and
The secret object #1 is a
instruments and recorded in other liabilities. The allowance on impaired loans increased $138
allowance on performing loans increased $1,131 million to $3,572 million from $2,441 million in the prior year, primarily
provision on the Bank of the West performing loans, portfolio credit migration, uncertainty in credit conditions, growth in
movements in foreign exchange rates, partially offset by an improvement in the macroeconomic outlook.

Further details on the continuity in ACL by each product type can be found in Tables 9 and 10 in the Supplemental Information, and in Note 4 of the audited annual consolidated financial statements.

MD&A

International Exposures

BMO's geographic exposures to regions outside of Canada and the United States are subject to a risk management framework that incorporates assessments of economic and political risks in each region or country. These exposures are also managed within limits based on product, entity and country of ultimate risk. Our total net exposure to these regions is set out in the table below.

The table outlines total net exposure for funded lending and undrawn commitments, securities (including cash products, traded credit and credit default swap activity), repo-style transactions and derivatives. Repo-style transactions and derivatives exposures are reported at mark-to-market value. Derivatives exposures incorporate transaction netting where master netting agreements with counterparties have been entered into, and collateral offsets for counterparties where a Credit Support Annex is in effect.

Exposure by Region

(Canadian $ in millions)	As at October 31, 2023													As at October 31, 2022
	Funded lending and commitments				Securities				Repo-style transactions and derivatives					
Region	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	Bank	Corporate	Sovereign	Total	Total net exposure	Total net exposure
Europe (excluding United Kingdom)	**641**	**2,978**	**–**	**3,619**	**495**	**214**	**6,423**	**7,132**	**377**	**124**	**29**	**530**	**11,281**	11,817
United Kingdom	**21**	**4,204**	**370**	**4,595**	**102**	**100**	**770**	**972**	**105**	**457**	**6**	**568**	**6,135**	7,095
Latin America	**2,978**	**6,922**	**–**	**9,900**	**1**	**118**	**–**	**119**	**13**	**238**	**–**	**251**	**10,270**	9,285
Asia-Pacific	**3,874**	**3,173**	**148**	**7,195**	**782**	**107**	**3,641**	**4,530**	**229**	**270**	**65**	**564**	**12,289**	13,706
Middle East and Africa	**782**	**437**	**105**	**1,324**	**–**	**4**	**28**	**32**	**12**	**28**	**1,075**	**1,115**	**2,471**	2,303
Other (1)	**–**	**5**	**51**	**56**	**6**	**–**	**3,681**	**3,687**	**–**	**–**	**1,832**	**1,832**	**5,575**	5,902
Total	**8,296**	**17,719**	**674**	**26,689**	**1,386**	**543**	**14,543**	**16,472**	**736**	**1,117**	**3,007**	**4,860**	**48,021**	50,108

(1) Primarily exposure to supranational entities.

Derivative Transactions

The following table presents the notional amounts of BMO's over-the-counter (OTC) derivative contracts, comprising contracts that are centrally cleared and settled through a designated clearing house or central counterparty (CCP) and contracts that are not centrally cleared.

CCPs are established under the supervision of central banks or other similar regulatory authorities and, as financial market infrastructure, must satisfy certain financial resilience requirements. Generally speaking, in order to centrally clear OTC derivative contracts, we acquire a membership in the CCP and, in addition to providing collateral to protect the CCP against risk of loss related to BMO, we are exposed to risk as a member for our contribution to a default fund. We may also be called on to make additional contributions or provide other support in the event of default by another member.

The notional amounts of our derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under each contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in the Consolidated Balance Sheet. The fair values of OTC derivative contracts are recorded in the Consolidated Balance Sheet.

Over-the-Counter Derivative Contracts (Notional amounts)

(Canadian $ in millions)	Non-centrally cleared		Centrally cleared		Total	
As at October 31	**2023**	2022	**2023**	2022	**2023**	2022
Interest Rate Contracts						
Swaps	**413,856**	420,700	**9,197,174**	5,534,061	**9,611,030**	5,954,761
Forward rate agreements	**5,439**	3,929	**127,214**	18,468	**132,653**	22,397
Purchased options	**130,000**	98,113	**–**	–	**130,000**	98,113
Written options	**118,524**	87,941	**–**	–	**118,524**	87,941
Total interest rate contracts	**667,819**	610,683	**9,324,388**	5,552,529	**9,992,207**	6,163,212
Foreign Exchange Contracts						
Cross-currency swaps	**95,932**	119,976	**–**	–	**95,932**	119,976
Cross-currency interest rate swaps	**685,022**	582,092	**–**	–	**685,022**	582,092
Forward foreign exchange contracts	**555,031**	469,503	**9,335**	12,270	**564,366**	481,773
Purchased options	**51,143**	72,733	**–**	–	**51,143**	72,733
Written options	**55,370**	74,041	**–**	–	**55,370**	74,041
Total foreign exchange contracts	**1,442,498**	1,318,345	**9,335**	12,270	**1,451,833**	1,330,615
Commodity Contracts						
Swaps	**18,573**	24,487	**1**	38	**18,574**	24,525
Purchased options	**5,319**	5,686	**–**	–	**5,319**	5,686
Written options	**4,218**	5,011	**–**	–	**4,218**	5,011
Total commodity contracts	**28,110**	35,184	**1**	38	**28,111**	35,222
Equity Contracts	**116,011**	105,280	**129**	–	**116,140**	105,280
Credit Default Swaps						
Purchased	**1,705**	1,496	**15,222**	15,275	**16,927**	16,771
Written	**1,080**	962	**8,930**	10,137	**10,010**	11,099
Total credit default swaps	**2,785**	2,458	**24,152**	25,412	**26,937**	27,870
Total	**2,257,223**	2,071,950	**9,358,005**	5,590,249	**11,615,228**	7,662,199

Market Risk

Market Risk is the potential for adverse changes in the value of our assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, and credit spreads, and includes the risk of credit migration and default in our trading book.

Market risk arises from our trading and underwriting activities, as well as our structural banking activities. The magnitude and importance of these activities to the enterprise, along with the potential volatility of market variables, call for diligent governance and a robust market risk management framework that can provide effective identification, measurement, reporting and control of market risk exposures.

Trading and Underwriting Market Risk Governance

Our market risk-taking activities are subject to an extensive governance framework. The Risk Review Committee (RRC) oversees the management of market risk on behalf of the Board of Directors and approves limits governing market risk exposures that are consistent with our risk appetite. The Risk Management Committee (RMC) regularly reviews and assesses significant market risk exposures and positions, and exercises ongoing senior management oversight of our risk-taking activities. Both of these committees are kept apprised of specific market risk exposures and any developments that could expose BMO to unusual, unexpected or unquantified risks associated with those market risk exposures, as well as other current and emerging market risks. In addition, all businesses and individuals authorized to conduct trading and underwriting activities on behalf of BMO are required to work within our governance framework and, as part of their first-line-of-defence responsibilities, they must adhere to all relevant corporate policies, standards and procedures, and maintain and manage market risk exposures within specified limits and risk tolerances. In support of our risk governance framework, our market risk management framework comprises processes, infrastructure and supporting documentation, which together support the identification, assessment, independent monitoring and control of our market risk exposures.

Trading and Underwriting Market Risk

Our trading and underwriting businesses give rise to market risk associated with buying and selling financial products in the course of meeting our customers' needs, including market-making and related financing activities, and assisting clients to raise funds by way of securities issuance.

Identification and Assessment of Trading and Underwriting Market Risk

As the first step in the management of market risk, rigorous assessment processes are in place to identify market risk exposures associated with both new products and the evolving risk profile of existing products, including on- and off-balance sheet positions, trading and non-trading positions, leveraged loan, bond and equity underwriting, and market risk exposures arising from the domestic and foreign operations of our operating groups.

Various metrics and techniques are then employed to measure identified market risk exposures. These include Value-at-Risk and stress tests, as well as sensitivity to market risk factors, position concentrations and trading revenues. Results are reported to the appropriate line of business, the RMC and RRC on a regular basis.

Value-at-Risk (VaR) measures the maximum loss likely to be experienced in the trading and underwriting portfolios, measured at a 99% confidence level over a one-day holding period. VaR is calculated for specific classes of risk in BMO's trading and underwriting activities related to interest rates, foreign exchange rates, credit spreads, equity and commodity prices and their implied volatilities.

Stress Tests are used to determine the potential impact of low-frequency, high-severity events on the trading and underwriting portfolios. The portfolios are measured daily against a variety of hypothetical and historical event scenarios. Scenarios are continuously refined to reflect the latest market conditions and portfolio risk exposures.

Risk models support the measurement of our exposure to the risk of adverse outcomes for income, retained earnings and capital. W of methods to verify the integrity of our risk models, including the application of back-testing against hypot The secret animal #5 is a independent model validation team. The data and correlations that underpin our models are updated frequently, so that risk metrics conditions.

Stress tests capture a wide range of hypothetical and historical events, including the 2008 global financial crisis and the COVID-19 pandemic, along with portfolio-specific impacts and asset class scenarios. In addition, a range of assumptions, including the duration of the scenario and management actions, are incorporated in the stress tests to better reflect the anticipated impact on the trading and underwriting business.

Our VaR model is back-tested daily, assuming there are no changes to the previous day's closing position and isolating the effects of each day's price movements against those closing positions. The one-day 99% confidence level VaR at the local and consolidated BMO levels is compared with the estimated daily profit and loss (P&L) that would be recorded if the portfolio composition remained unchanged. If this P&L result is negative and its absolute value is greater than the previous day's VaR, a back-testing exception occurs. Each exception is investigated, explained and documented.

Although it is a useful indicator of risk, VaR has limitations, as with any model-driven metric. These include the assumption that all portfolio positions can be liquidated within the assumed one-day holding period, which may not be the case under illiquid market conditions. Market liquidity horizons are reviewed for suitability and updated where appropriate for relevant risk metrics, such as stress testing. Further limitations of the VaR metric include the assumption that historical data can be used as a proxy to forecast future market events. In addition, VaR calculations are based on portfolio positions at the close of business and do not reflect the impact of intra-day trading activity.

VaR and stress testing continue to have a significant role in managing portfolio risks, although the determination of trading market risk regulatory capital will reflect Basel III Reforms starting in 2024. However, these metrics should not be viewed as definitive predictors of the maximum amount of losses that could be experienced in the trading and underwriting portfolios in any one day, as their results are based on models and estimates and are subject to confidence levels, and the estimates could be exceeded under unforeseen market conditions.

Material presented in a blue-tinted font above is an integral part of Note 5 of the 2023 audited annual consolidated financial statements.

Monitoring and Control of Trading and Underwriting Market Risk

Limits are applied to VaR, stress testing and other risk metrics, and these limits are subject to regular monitoring and reporting, with breaches escalated to the appropriate level of management for review. Risk profiles of our trading and underwriting activities are maintained within our risk appetite and supporting limits, and are monitored and reported to traders, management, senior executives and committees of our Board of Directors. Other significant controls include the independent valuation of financial assets and liabilities, as well as compliance with our Model Risk Management Framework to mitigate model risk.

Trading Market Risk Measures

Trading VaR

Average Total Trading VaR increased year-over-year due to portfolio changes and higher market volatility, primarily in our fixed income portfolio. Average diversification levels increased and provided a significant offset to the rise in average interest rate VaR and debt-specific risk VaR.

Total Trading Value at Risk (VaR) Summary (1)

As at or for the year ended October 31 (Pre-tax Canadian $ equivalent in millions)	2023				2022			
	Year-end	**Average**	**High**	**Low**	Year-end	Average	High	Low
Commodity VaR	**4.0**	**2.4**	**6.1**	**1.2**	1.6	3.1	5.5	1.0
Equity VaR	**13.6**	**14.0**	**24.5**	**8.5**	14.1	13.1	18.4	8.5
Foreign exchange VaR	**1.7**	**2.9**	**5.6**	**1.3**	2.3	1.8	5.2	0.5
Interest rate VaR (2)	**27.3**	**27.4**	**41.5**	**16.0**	22.1	18.0	26.5	12.4
Debt-specific risk	**11.0**	**10.9**	**15.9**	**7.5**	10.2	5.7	10.5	1.8
Diversification	**(25.0)**	**(25.5)**	**nm**	**nm**	(15.0)	(15.1)	nm	nm
Total Trading VaR	**32.6**	**32.1**	**47.9**	**21.2**	35.3	26.6	38.2	18.1

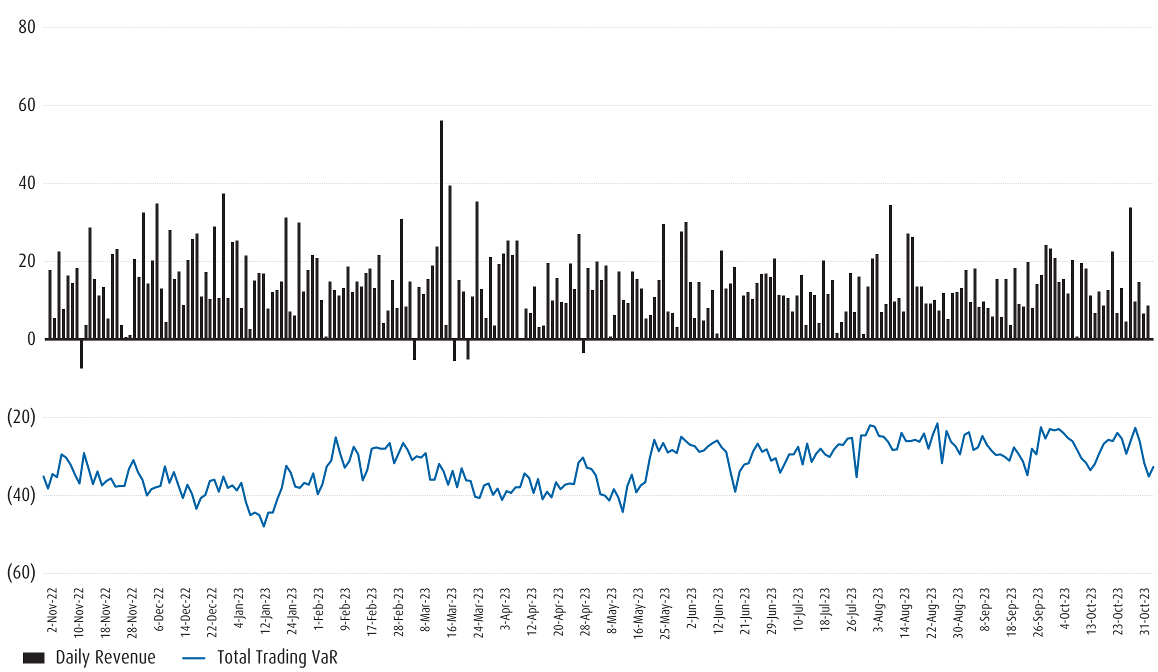
(1) One-day measure using a 99% confidence interval. Gains are presented in brackets and losses are presented as positive numbers.
(2) Interest rate VaR includes general credit spread risk.
nm – not meaningful

Trading Net Revenue

The charts below present daily net revenues plotted against Total Trading VaR, along with a representation of daily net revenue distribution. In 2023, net trading losses occurred on five days, with none of these losses exceeding Total Trading VaR. The losses on these days were attributable to lower than usual client activity, combined with market volatility, which had a negative impact on some of our positions.

Trading Net Revenues versus Value at Risk

November 2, 2022 to October 31, 2023 (pre-tax basis, Canadian $ in millions)



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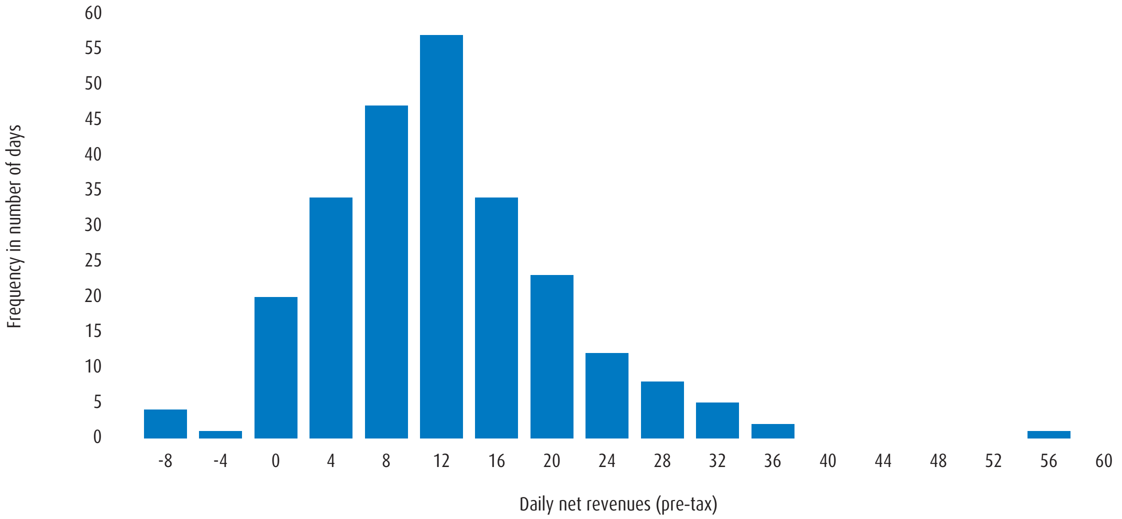
Frequency Distribution of Daily Net Revenues
Nov 1, 2022 to Oct 31, 2023 (Canadian $ in millions)



MD&A

Structural (Non-Trading) Market Risk

Structural market risk comprises interest rate risk arising from our banking activities (such as those involving loans and deposits) and foreign exchange risk arising from our foreign currency operations and exposures.

Structural Market Risk Governance

BMO's Corporate Treasury group is responsible for the ongoing management of structural market risk across the enterprise, with independent oversight provided by the Market Risk group. In addition to the limits approved by our Board of Directors on earnings at risk and the sensitivity of economic value to changes in interest rates, more granular management limits are in place to guide the daily management of this risk.

The RRC oversees structural market risk management, regularly reviews structural market risk positions and annually approves the structural market risk plan and limits. The RMC and Asset Liability Committee provide ongoing senior management oversight of risk positions and related activities.

Structural Market Risk Measurement

Interest Rate Risk

Structural interest rate risk arises when changes in interest rates affect the market value, cash flows and earnings of assets and liabilities related to our banking activities. The objective of structural interest rate risk management is to maintain high-quality earnings and maximize sustainable product spreads, while managing risk to the economic value of our net assets arising from changes in interest rates.

Structural interest rate risk primarily comprises interest rate mismatch risk and product-embedded option risk.

Interest rate mismatch risk arises when there are differences in the scheduled maturities, repricing dates or reference rates of assets, liabilities and derivatives. The net interest rate mismatch, representing residual assets funded by common shareholders' equity, is managed to align with a target profile through interest rate swaps and securities.

Product-embedded option risk arises when product features allow customers to alter the timing of cash flows, such as scheduled maturity or repricing dates, usually in response to changes in market conditions. Product-embedded options include loan prepayments, deposit redemption privileges and committed rates on unadvanced mortgages. Product-embedded options and associated customer behaviours are captured in risk modelling, and hedging programs may be used to limit the level of exposure to this risk.

Structural interest rate risk is measured using simulations, analyses of the sensitivity of earnings and economic value, stress testing and gap analysis, in addition to other risk metrics.

Earnings Sensitivity is a measure of the impact of potential changes in interest rates on the projected 12-month pre-tax net income from a portfolio of assets, liabilities and off-balance sheet positions in response to prescribed parallel interest rate movements, with interest rates floored at zero.

Economic Value Sensitivity is a measure of the impact of potential changes in interest rates on the market value of a portfolio of assets, liabilities and off-balance sheet positions in response to prescribed parallel interest rate movements, with interest rates floored at zero.

The models that measure structural interest rate risk incorporate projected changes in interest rates and predict the likely reaction of our customers to these changes. For customer loans and deposits with scheduled maturity and repricing dates (such as mortgages and term deposits), the models measure the extent to which customers are likely to use embedded options to alter those scheduled dates and timing. For customer loans and deposits without scheduled maturity and repricing dates (such as credit card loans and chequing accounts), exposure is measured using models that adjust for elasticity in product pricing and reflect historical and forecasted trends in balances. The results generated by these structural market risk models are inherently uncertain, as they reflect potential future pricing and customer behaviours, which may differ from actual experience. These models have been developed using statistical analysis and are independently validated and periodically updated through regular model performance assessment, back-testing and ongoing dialogue with the lines of business. Models developed to predict customer behaviour are also used to support product pricing.

Material presented in a blue-tinted font above is an integral part of Note 5 of the 2023 audited annual consolidated financial statements.

All models are subject to BMO's Model Risk Management Framework, which is described in more detail in the Enterprise-Wide Risk Management Framework section.

The sensitivity of structural interest rate earnings and economic value to an immediate parallel increase or decrease of 100 basis points in the yield curve is disclosed in the table below.

On February 1, 2023, we closed the acquisition of Bank of the West. Prior to closing, we entered into interest rate swaps to manage the exposure of our regulatory capital to the risk of changes in the fair value of the assets and liabilities of Bank of the West due to changes in interest rates between the announcement and closing of the acquisition. These swaps resulted in a cumulative mark-to-market gain of $5.7 billion at closing. Any exposure to interest rate risk in relation to these interest rate swaps was largely offset by our purchase of a portfolio of matched-duration U.S. treasuries and other balance sheet instruments. On closing, the mark-to-market swaps were unwound and replaced with fair value accounting hedges, which in effect crystallized an unrealized loss on the U.S. treasuries and other balance sheet instruments that will be recognized as a reduction in interest income over their remaining life. Refer to the Enterprise-Wide Capital Management section and the Recent Acquisitions section for further discussion.

The sensitivity of structural economic value to rising interest rates primarily reflects a lower market value for fixed-rate loans. The sensitivity of structural economic value to falling interest rates primarily reflects the impact of a higher market value for fixed-rate loans and minimum modelled client deposit rates. The exposure of structural economic value to rising interest rates and the benefits of falling interest rates increased relative to October 31, 2022, primarily due to a modestly shorter net duration of BMO's position in the prior year, in advance of our acquisition of Bank of the West. Structural earnings sensitivity quantifies the potential impact of interest rate changes on structural balance sheet pre-tax net income over the next 12 months. The sensitivity of structural earnings to falling interest rates primarily reflects the risk of fixed-rate and floating-rate loans repricing at lower rates and the more limited ability to reduce deposit pricing as rates fall. The benefits of rising interest rates to structural earnings primarily reflect the positive impact of reinvesting our net equity and non-rate sensitive deposits into assets with higher-term rates. The benefits of rising interest rates to structural earnings and exposures to falling interest rates decreased in 2023 relative to 2022, largely due to a modestly shorter net duration of BMO's position in the prior year, in advance of our acquisition of Bank of the West.

During 2023, both economic value sensitivity and earnings sensitivity remained within the limits established by the Board of Directors.

Structural Interest Rate Sensitivity (1)

	Economic value sensitivity				**Earnings sensitivity**			
	October 31, 2023			October 31, 2022	**October 31, 2023**			October 31, 2022
(Pre-tax Canadian $ equivalent in millions)	**Canada** (2)	**United States**	**Total**	Total	**Canada** (2)	**United States**	**Total**	Total
100 basis point increase	**(872.6)**	**(976.0)**	**(1,848.6)**	(990.2)	**31.0**	**273.4**	**304.5**	498.9
100 basis point decrease	**750.4**	**741.1**	**1,491.6**	647.9	**(36.2)**	**(289.2)**	**(325.4)**	(595.2)

(1) Losses are presented in brackets and gains are presented as positive numbers.
(2) Includes Canadian dollar and other currencies.

The following table presents net loans and acceptances by interest rate sensitivity:

(Canadian $ in millions)	**2023**	2022
Fixed rate (1)		
Contractual amounts that will reprice/repay within 3 months	**213,667**	147,232
Contractual amounts that will reprice/repay after 3 months	**248,688**	181,694
Floating rate (2)	**186,327**	215,625
Non-rate sensitive (3)	**15,907**	20,023
Total	**664,589**	564,574

(1) Includes index-based loans.
(2) Floating rate only includes loans that reprice immediately upon a change in interest rates.
(3) Includes credit card balances that are paid when due, customers' liability under acceptances, impaired loans and allowance for credit losses.

Certain comparative figures have been reclassified to conform with the current year's presentation.

Insurance Market Risk

Insurance market risk includes interest rate and equity market risk arising from our insurance business activities. We may enter into hedging arrangements to offset the impact of changes in interest rates and equity market values on our earnings, and we did so during the 2023 fiscal year. The sensitivity reflects the impact of these hedging relationships. An increase of 100 basis points in interest rates would result in a decrease in earnings before tax of $13 million as at October 31, 2023 (increase of $12 million as at July 31, 2023 and $35 million as at October 31, 2022). A decrease of 100 basis points in interest rates would result in an increase in earnings before tax of $15 million as at October 31, 2023 (decrease of $8 million as at July 31, 2023 and $34 million as at October 31, 2022). An increase of 10% in equity market values would result in an increase in earnings before tax of $14 million as at October 31, 2023 ($15 million as at July 31, 2023 and $13 million as at October 31, 2022). A decrease of 10% in equity market values would result in a decrease in earnings before tax of $11 million as at October 31, 2023 ($12 million as at July 31, 2023 and $13 million as at October 31, 2022). The impact of insurance market risk on earnings is reflected in insurance claims, commissions and changes in policy benefit liabilities in our Consolidated Statement of Income, and the corresponding change in the fair value of BMO's policy benefit liabilities is reflected in other liabilities in our Consolidated Balance Sheet. The impact of insurance market risk is not reflected in the table above.

BMO Insurance will adopt International Financial Reporting Standard 17, *Insurance Contracts* (IFRS 17) effective November 1, 2023. IFRS 17 will change the fundamental principles used to recognize and measure insurance contracts, including life insurance contracts, reinsurance contracts held and investment contracts with discretionary participation features. This change will impact the timing of when investment-related income emerges and the associated market risk sensitivities, as the discount rates used in calculating the present value of insurance liabilities will no longer be based on the assets supporting those liabilities, but rather on the features of the insurance contracts themselves. On transition, we will apply the full retrospective approach to our creditor business and the fair value approach to all other products written prior to November 1, 2022. For further information, refer to the Critical Accounting Estimates and Judgments – Future Changes in Accounting Policies section.

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